Mullen Group
INCOME FUND

2007 ANNUAL FINANCIAL REPORT

Management's Discussion and Analysis,
Consolidated Financial Statements
and
Notes to Consolidated Financial Statements

CONTENTS

HIGHLIGHTS

- Revenues - $1.1 billion
- Operating income - $209.1 million
- Income before impairment of goodwill and intangible assets - $149.6 million
- Distributions paid - $147.0 million
- Recorded impairment of goodwill $250.0 million and intangible assets $25.0 million
- The rise in CDN. dollar compared to the U.S. dollar resulted in a $26.7 million net unrealized foreign exchange gain
- Received funds of $85.0 million U.S. and $20.0 million CDN. from private placement of long-term debt
- Mullen announced Normal Course Issuer Bid to repurchase up to 5,740,000 Trust Units and repurchased 1,703,700 Trust Units in 2007 at an average cost of $16.82 per unit
- Working capital increased during the year to $177.4 million from $152.0 million in 2006.

Trucking/Logistics segment:

Cascade Carriers L.P.
Kleysen Group L.P.
Mullen Trucking L.P.
Payne Transportation L.P.
Grimshaw Trucking L.P.
Mill Creek Motor Freight L.P.
Pe Ben Bulk Transport Ltd.
Tenold Transportation Limited Partnership

Oilfield Services segment:

Drilling Services
OK Drilling Services L.P.
TREO Drilling Services L.P.

Drilling Related Services
Formula Powell L.P.
FSJ L.A.N.D. Transport L.P.
Mullen Oilfield Services L.P.
Pe Ben Oilfield Services L.P.
Swanberg Bros. Trucking L.P.
Withers L.P.

Production Services
E-Can Oilfield Services L.P.
Heavy Crude Hauling L.P.
Brady Oilfield Services L.P.
Spearing Service L.P.
Pro North Oilfield Services

Specialized Services
Burnell Contractors L.P.
Canadian Dewatering L.P.
Premay Equipment L.P.
Premay Pipeline Hauling L.P.

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Forward-Looking Information

This report contains forward-looking statements which reflect management's expectations regarding the Mullen Group Income Fund's ("Mullen" or the "Fund") future growth, financial condition, results of operations, performance, business prospects, strategies and opportunities. Wherever possible, words such as "anticipate", "may", "will", "believe", "expect", "potential", "continue", "view" and similar expressions have been used to identify these forward-looking statements. These statements reflect management's current beliefs and assumptions and are based on information currently available to management. Forward-looking statements involve significant inherent risks and uncertainties, numerous assumptions and the risk that the predictions and forward-looking statements will not be achieved and that the actual results or events may differ materially from those anticipated in such forward-looking statements. A number of factors could cause actual results, performance or achievements to differ materially from the results discussed or implied in the forward-looking statements. Although the forward-looking statements contained in this report are based upon what management believes to be reasonable beliefs and assumptions, the Fund cannot assure readers that actual results will be consistent with these forward-looking statements. Some of the risks and uncertainties include, but are not limited to; certain economic risks, most important of which are a slowdown in the general economy or reduced oil or natural gas drilling; non-resident ownership; changes to the tax treatment of income trusts; prevailing interest rates; currency exchange rates; customer relationships, labour disruption and driver retention; accidents and costs of liability insurance; and fuel prices. Given these risks and uncertainties, the reader should not place undue reliance on these forward-looking statements. See additional discussion under Business Risks, beginning on page 37. These forward-looking statements are made as of the date hereof and the Fund assumes no obligation to update or revise them to reflect new events or circumstances, except as required by applicable securities legislation.

MANAGEMENT'S DISCUSSION AND ANALYSIS - OVERVIEW

The Management's Discussion and Analysis ("MD&A") for 2007 should be read in conjunction with the 2007 annual consolidated financial statements ("2007 Annuals"). All amounts are in Canadian funds. Additional information on the Fund, including the Fund's Annual Information Form dated February 27, 2008, is available on SEDAR at www.sedar.com, the Fund's website at www.mullen-group.com or on request, free of charge, from the Fund's Investor Services group, ir@mullen-group.com.

General

The Fund is an open-ended income fund that owns a network of independently operated businesses. Mullen is recognized as the largest provider of specialized transportation and related services to the oil and natural gas industry in western Canada and is one of the leading suppliers of trucking and logistics

services in Canada – two sectors of the economy in which Mullen has strong business relationships and industry leadership. The Fund was formed on June 3, 2005 and commenced operations on July 1, 2005 as a result of the completion of a plan of arrangement (the "Plan") completed on July 1, 2005 under the *Business Corporations Act* (Alberta) involving, among others, the Fund, Mullen Transportation Inc. ("Mullen Transportation" or the "Company"), Mullen Holding Trust ("MHT"), Mullen Group Inc. ("MGI" or the "Administrator"), and Mullen Acquisition Corp., pursuant to which, among other things, the Fund indirectly acquired all the issued and outstanding common shares of Mullen Transportation and reorganized certain of its subsidiary companies and partnerships into limited partnerships. Mullen is a publicly-traded income trust listed on the Toronto Stock Exchange under the symbol "MTL.UN".

The Fund was established for the purposes of acquiring or investing in the securities of MHT, MGI, MT Investments Inc., formally known as Mullen Transportation, or any associate or affiliate thereof or any other entity involved in any business. Such business may involve the ownership, lease or operation of assets, property or businesses, related to the transportation, distribution or storage of freight or the provision of transportation, housing, drilling or other services related to exploration for or drilling, extracting, gathering, processing, transporting, buying, storing or selling of petroleum, natural gas, natural gas liquids, water, minerals or other related products, power or other forms of energy, and any and all related businesses.

The indirect subsidiaries of the Fund carry on the business of the Fund.

The unitholders are the sole beneficiaries of the Fund. CIBC Mellon Trust Company is the trustee (the "Trustee") of the Fund. The Fund is the sole shareholder of MGI. The Fund is not managed by a third-party manager. Pursuant to a delegation agreement, certain of the powers and duties of the Trustee have been delegated to the Administrator and pursuant to an administration agreement dated June 3, 2005 (the "Administration Agreement") the management and administration of the Fund has been delegated to the Administrator. Pursuant to this Administration Agreement, the Administrator, on behalf of the Trustee, may declare payable to the unitholders on a particular distribution record date all or any part of the cash flow of the Fund for a distribution period. Since the creation of the Fund, the Fund has made regular monthly cash distributions on the 15th day of each month (or the first business day thereafter) to holders of units of record on the immediately preceding distribution record date.

The Fund's audited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The audited consolidated financial statements and MD&A were reviewed by the Administrator's Audit Committee on February 27, 2008 and approved by the Administrator's Board of Directors on February 27, 2008.

The Fund reports on certain non-GAAP measures that are used by management to evaluate performance of the Fund. Management believes these measures are useful supplemental measures. These non-GAAP measures do not have standardized meanings and may not be comparable to similar measures presented by other companies or income trusts. For the readers' reference, the definition, calculation and reconciliation of consolidated non-GAAP measures is provided in the "Glossary of Terms and Reconciliation of Non-GAAP Terms" section of the MD&A.

Continuity of Interests

On June 30, 2005, the shareholders of Mullen Transportation approved the Plan that resulted in the Company's conversion to an open-ended investment trust called Mullen Group Income Fund. The Fund, as the successor in interest to the Company, is accounted for as continuity-of-interest. The audited consolidated financial statements of the Fund for the year ended December 31, 2007 and comparables for the prior periods will reflect the financial position, results of operations and cash flows as if the Fund had always carried on the business formerly conducted by the Company.

Disclosure Regarding Issuer Bid

Mullen has made a normal course issuer bid (the "Normal Course Issuer Bid") to purchase from time to time, as it considers advisable, up to 5,740,000 of its issued and outstanding Trust Units on the open market through the facilities of the Toronto Stock Exchange. The Normal Course Issuer Bid commenced on March 16, 2007 and will terminate on March 15, 2008, or such earlier time as the bid is completed or terminated by Mullen. For the year ended December 31, 2007, the Fund has repurchased 1,703,700 units at an average cost of $16.82. Copies of the Notice of Intention to Make a Normal Course Issuer Bid dated March 14, 2007 pursuant to which the Normal Course Issuer Bid was made may be obtained by securityholders, without charge, by contacting Mullen at 1600, 333 – 11th Avenue S.W., Calgary, Alberta, T2R 1L9 (Telephone: (403) 920-1118, Telecopy: (403) 920-1110).

Summary Description of Business

The businesses of the Fund are operated through wholly-owned companies and limited partnerships collectively known as the "Mullen Group". These operating businesses, which are owned indirectly by the Fund, are divided into two distinct business segments; Oilfield Services and Trucking/Logistics. The segments are differentiated by the type of service provided, equipment requirements and customer needs. The management and financial expertise, technology and systems support for the operating businesses is provided by the Administrator of the Fund.

During 2006 the Fund's Oilfield Services segment grew significantly through the acquisition of the Producers group, which now consists of Formula Powell L.P., Swanberg Bros. Trucking L.P. and Withers L.P. (the "Producers Group"). This Oilfield Services segment utilizes its highly trained personnel to provide specialized transportation services, drilling services and well-servicing equipment and warehousing to the oil and gas industry. These services include drilling rig relocation services, conductor pipe setting, core drilling, shallow gas and coal-bed methane drilling, casing setting, transporting of oversize and overweight shipments, pipe stockpiling and stringing, the transportation, handling and storage of oilfield fluids, tubulars and drilling mud, dewatering services and a broad range of services related to the processing and production of heavy oil, including well-servicing and pumping, hauling and disposal of fluids. The Trucking/Logistics segment offers a diversified range of truckload and less-than-truckload general freight services to customers in Canada, the United States and Mexico, transporting a wide range of goods including general freight, specialized commodities such as cable, pipe and steel, over-dimensional loads such as heavy equipment, compressors and over-sized goods and dry bulk commodities such as cement and other dry bulk goods. In addition, the Trucking/Logistics segment also provides logistics, warehousing and distribution, transload and intermodal services primarily in western Canada.

The Fund's operations consist of 25 business units, each of which is operated as a separate business accountable for its own performance and profitability. The businesses utilize both their own equipment and the services and equipment of owner-operators and subcontractors. As at December 31, 2007, the Fund owned or leased 1,858 power units; had access to an additional 996 power units under contract with owner-operators and dedicated subcontractors; and employed 4,850 drivers and field personnel. The Fund also owned or leased 6,044 trailers (the vast majority of which are owned by the Fund), which include vans, flatbeds, dry bulk, specialized trailers and temperature-controlled trailers. In addition, as at December 31, 2007, the Fund owned 31 coring rigs, 16 auger drilling rigs, 3 dual rotary rigs and 6 single drilling rigs.

Materiality of Disclosures

Management determines whether or not information is "material" based on whether it believes a reasonable investor's decision to buy, sell or hold securities in the Fund would likely be influenced or changed if the information were omitted or misstated.

Objective of the Fund

The objective of the Fund is to maximize the overall returns to unitholders in two ways. The first is by distributing income generated by the business in the most tax-effective manner allowed by the *Income Tax Act (Canada)* (the "Tax Act"). The second is by growing the Fund's business through the acquisition of profitable and well-managed businesses in the sectors of the economy where the Fund feels opportunities exist or where the Fund has strong market penetration and business experience, including the oil and gas service industry and the transportation and distribution of freight within the North American economy. Since going public in 1993, Mullen, and its predecessor Mullen Transportation, have acquired 37 businesses and have grown annual revenues to $1.1 billion in 2007 from $72.6 million in 1993.

Quality and Customer Service

The business of the Fund is managed on behalf of its unitholders based upon the principles of generating superior profitability and striving for excellence in safety. To achieve these two goals the Fund has committed to the principles of Total Quality Management, which have been incorporated into the Fund's program known as *"On the Road to Quality"*. This award winning program is based upon the foundation that the Fund's people are the key to the future success of Mullen. In support of this belief the Fund seeks to provide its employees with:

- A quality work environment
- On-going training and skills upgrading
- Career growth opportunities
- Effective technology to enhance systems and processes
- Incentive based-pay

Operating in a team environment, the Fund challenges its employees to make decisions on all aspects relating to the operations of the business. By doing so, the Fund believes that it can improve customer service, enhance business processes, maintain cost controls and obtain excellence in safety.

Operating Strategy

The Fund's approach to managing its business, assets and cash flows to achieve the maximum overall returns to unitholders is based upon the following strategy:

(1) Operate a decentralized business model - the Administrator provides overall support to the operating businesses, which are each held accountable for their own performance and results. The management and employees of these business units are remunerated and receive profit share based upon the performance of their business unit.

(2) Maximize asset utilization - utilizing a combination of company-owned and operated equipment, which are either acquired as an asset or under operating leases, owner-operator equipment, dedicated subcontractors and subcontractors on an as-needed basis.

(3) Invest in energy - investing in western Canada where the economic growth is higher due to the oil and natural gas and mining sectors of the economy and where the Fund believes future growth opportunities exist.

(4) Invest in accretive acquisitions – acquire competing, complementary or new business lines that can accelerate the Fund's growth potential.

(5) Diversify – continue to grow and invest where opportunities exist in the two segments of the economy where the Fund has strong market penetration and customer relationships, namely: the oil and natural gas industry, and the transportation and distribution of freight within North America.

(6) Maintain a strong balance sheet.

(7) Maintain a conservative payout ratio over the life of a business cycle. A distribution of 75.0 percent of funds from operations has been considered appropriate for Mullen over the course of a business cycle; however, this could vary from year to year due to market conditions.

SIGNIFICANT DEVELOPMENTS

Impairment of Goodwill and Intangible Assets

Goodwill is the residual amount, if any, that remains after the purchase price of an acquired business is allocated to the assets (including intangibles assets) acquired less liabilities assumed, based on their fair values. During 2006 the acquisition of the Producers Group significantly increased the amount of goodwill recognized by the Fund. The Fund assesses, on an annual basis, its goodwill to determine

whether an impairment exists. An impairment exists when the carrying value of goodwill and intangible assets exceed their fair value.

During 2007 the Federal government implemented changes to the tax regime governing specified investment flow-through ("SIFT") entities such as the Fund. In addition, the Alberta government announced changes to the oil and gas royalty regime in Alberta which impacted many of the Fund's customers. These actions coupled with lower natural gas prices significantly reduced natural gas drilling activity in western Canada and the demand for services in our Oilfield Services segment.

The combination of these events lead to the Fund recognizing, as at December 31, 2007, an impairment of goodwill of $250.0 million and intangible assets of $25.0 million, both of which mainly related to the Oilfield Services segment, particularly the acquisition of Producers Oilfield Services Inc. ("Producers") (See Notes 5 and 6 of the 2007 Annuals).

Private Placement Debt Financing

On September 5, 2007, the Fund received funding from a debt financing with a group of institutional investors in the United States and Canada providing for an issuance by way of private placement of U.S. $85.0 million in Series E Notes and CDN. $20.0 million of Series F Notes. The Series E Notes and Series F Notes will mature September 27, 2017. The Series E and Series F Notes bear annual interest of 5.9 percent and 5.47 percent, respectively, and interest is payable on a semi-annual basis (see Note 9 of the 2007 Annuals).

Tax on Specified Investment Flow-Through Entities

On June 22, 2007, the Government of Canada enacted a tax on distributions for SIFT entities. This enactment has triggered the recognition of future income taxes on assets and liabilities expected to reverse after January 1, 2011. The effect of the income tax increase on the SIFT entity's future income tax has been reflected as a future income tax expense in 2007 (see Note 10 of the 2007 Annuals).

Acquisitions and Dispositions

Continuing the Fund's strategy of acquiring profitable and well-managed businesses, the Fund completed two small acquisitions during the year. In the Trucking/Logistics segment, the Fund acquired all the outstanding shares of E.K. Inc. ("EK") for total consideration of $2.4 million and this business was added to Mullen Trucking L.P. based in Aldersyde, Alberta. In the Oilfield Services segment, the Fund acquired all the outstanding shares of Pro North Well Management Ltd. and its wholly-owned subsidiary, Pro North Oilfield Services Ltd. (collectively, "Pro North"), a fluid hauling business based in Fort Nelson, British Columbia, for total consideration of $9.5 million.

These acquisitions have been accounted for by the purchase method and results of operations have been included in the 2007 Annuals from the date of acquisition. Total cash consideration for the acquisitions during 2007 amounted to $11.9 million (see Note 2 of the 2007 Annuals).

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Selected Annual Information

($ millions, except per unit amounts) Years ended December 31	2007	2006	2005
	$	$	$
Revenue	**1,119.5**	1,003.3	591.7
Operating income [1]	**209.1**	202.1	112.7
Income before impairment of goodwill and intangible assets[1]	**149.6**	128.1	70.0
Earnings per unit before impairment of goodwill and intangible assets[1]	**$1.83**	$1.86	$1.51
Impairment of goodwill and intangible assets	**275.0**	—	—
Net (loss) income	**(118.7)**	128.1	70.0
Earnings per unit			
– basic	**$(1.45)**	$1.86	$1.51
– diluted	**$(1.45)**	$1.86	$1.51
Funds from operations [1]	**193.8**	195.3	100.8
Funds from operations per unit [1]	**$2.38**	$2.84	$2.18
Total assets	**1,770.5**	2,021.2	508.6
Total long-term debt	**402.4**	346.7	51.5
Debt-to-equity	**0.36:1**	0.24:1	0.22:1
Cash distributions declared	**146.8**	124.0	38.2
Cash distributions declared per unit	**$1.80**	$1.80	$0.81

[1] *Refer to the Glossary of Terms and Reconciliation of Non-GAAP terms.*

Consolidated Analysis

In last year's MD&A we indicated to unitholders that despite our concerns related to the volatility of the energy sector the Fund would still have a successful year in 2007. We believe our prediction in that regard was accurate. Revenues increased by over $100.0 million, distributions remained constant at $0.15 per unit per month and we maintained a strong balance sheet.

As anticipated, 2007 brought with it a sharp decline in natural gas drilling activity and related capital investments. The industry statistics indicate that overall oil and gas drilling activity declined on a year-over-year basis by 20.1 percent from 22,979 wells drilled in 2006 to 18,367 wells drilled in 2007. This decline in drilling activity resulted in a significant drop in demand for the services our business units provide which are dependent on drilling activity.

The strength of our diversified business model became very apparent in 2007. The significant loss in revenue and operating income experienced by our Drilling Related Services group was more than offset by the increased revenue and operating income generated by our Trucking/Logistics segment, and our Production Services and Specialized Services groups, businesses leveraged to the development of oilsands and related capital projects and the servicing of producing wells. We were pleased with the

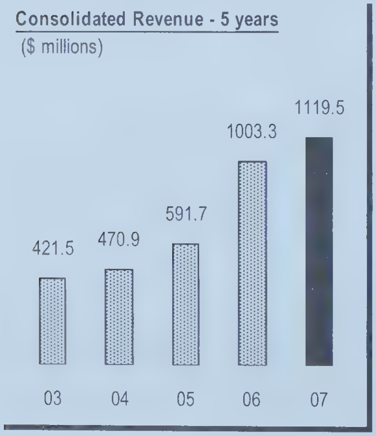
increase in revenue generated by our Trucking/Logistics segment, however the segment experienced an overall decline in its operating margin mainly due to foreign exchange losses leaving operating income only slightly ahead on a year-over-year basis.

During the year we indicated to unitholders the possibility existed that the Fund would be required to recognize an impairment of goodwill and intangible assets at its year end. This possibility became a reality due to the downward pressure on our unit price caused by the combination of the Federal government's enacted tax on trusts, the Alberta government's recently announced decision to revise the royalty regime in Alberta and the depressed state of the price of natural gas. These factors acted together to substantially reduce natural gas drilling activity and, thereby, the fair value of our Oilfield Services segment resulting in a $250.0 million write-down of goodwill and a $25.0 million write-down of intangible assets.

Consolidated Revenue

Revenue is generated by the Fund through its 25 operating businesses. These businesses are divided into two segments, namely Trucking/Logistics and Oilfield Services, for reporting purposes. The Fund's operating businesses utilize a combination of company assets which are either owned by the Fund or leased under long-term operating leases ("Company Equipment") or owner-operators who provide trucks and/or trailers and work exclusively for the Fund under annual contracts and subcontractors who own their own equipment and are used during times of peak demand (collectively, "Contractors").

Annual Consolidated Revenue ($ millions)	2007	2006	Change
	$	$	$
Company	**657.5**	581.2	76.3
Contractors	**454.7**	414.3	40.4
Other	**7.3**	7.8	(0.5)
Total	**1,119.5**	1,003.3	116.2



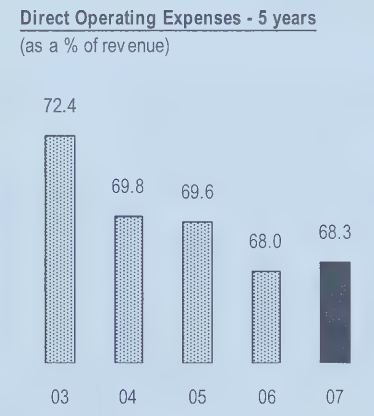
In 2007 the Fund's consolidated revenue increased by 11.6 percent to approximately $1.1 billion from $1.0 billion in 2006. This increase was primarily attributable to the strong performance from the Production Services group by virtue of the full year's inclusion of Brady Oilfield Services L.P. ("Brady") and this group's involvement with producing wells, the Specialized Services group through the full year's inclusion of Canadian Dewatering L.P. ("Canadian Dewatering") and this group's involvement with the development of oilsands' projects and related construction activity, and the inclusion of Kleysen Group L.P.'s ("Kleysen") results for the entire year. Offsetting this growth in revenue was the decline in revenue experienced by the Drilling Related Services group whose business units are tied to oil and gas drilling activity and a decrease in revenue from eastern Canada where the Fund's export customers struggled to adapt to the rapid rise in value of the CDN. dollar as compared to the U.S. dollar. In western Canada, demand for freight services remained strong primarily due to the continued expansion of the economies in the western region of Canada. The $7.3 million of Other revenue consisted primarily of interest, rent and other miscellaneous revenue.

Direct Operating Expenses

Direct operating expenses include two main categories of expenses. The first category of direct operating expenses relates to the direct costs incurred to operate and maintain Company Equipment. The major direct operating costs associated with operating Company Equipment are wages, repairs and maintenance, fuel and operating supplies. The second category are the costs incurred to hire Contractors, whether owner-operators or subcontractors.

Annual Direct Operating Expenses ($ millions)	2007	2006	Change
	$	$	$
Company			
Wages and benefits	**176.4**	153.0	23.4
Fuel	**49.7**	42.4	7.3
Repairs and maintenance	**98.1**	83.4	14.7
Operating supplies	**53.3**	40.4	12.9
Other	**44.8**	43.7	1.1
	422.3	362.9	59.4
Contractors	**342.7**	319.2	23.5
Total	**765.0**	682.1	82.9

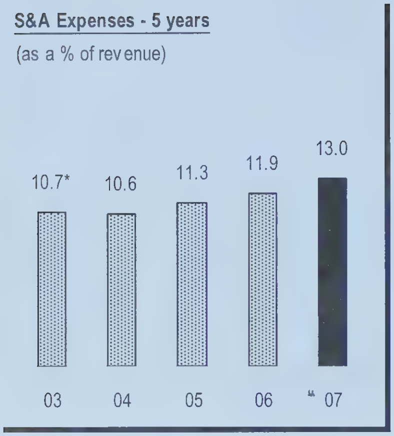
Direct operating expenses increased by 12.2 percent to $765.0 million from $682.1 million in 2006, primarily as a result of the year-over-year increase in revenue generated by the Fund. As a percentage of revenue, these expenses increased slightly year-over-year to 68.3 percent from 68.0 percent in 2006. The increase was attributable to a combination of rising operating costs associated with Company Equipment, and the fixed costs associated with operating Company Equipment in the Drilling Services and Drilling Related Services groups, both of which experienced lower utilization rates due to the decrease in natural gas drilling activity in western Canada. The Other expenses shown as direct operating expenses - Company mainly consists of operating leases, equipment rent, insurance, taxes and licensing costs.



Selling and Administrative Expenses

Selling and administrative ("S&A") expenses include salaries, employee profit share and other administrative expenses incurred to support the operations of the Fund. These expenses increased to $145.4 million from $119.1 million in 2006. The $26.3 million increase represents a 22.1 percent year-over-year increase and occurred due to three main reasons.

Annual S&A Expenses ($ millions)	2007	2006	Change
	$	$	$
Wages and benefits	**66.3**	57.2	9.1
Communications, utilities and general supplies	**38.7**	31.9	6.8
Profit share	**17.6**	20.2	(2.6)
Foreign exchange	**3.9**	(3.0)	6.9
Rent and other	**18.9**	12.8	6.1
Total	**145.4**	119.1	26.3

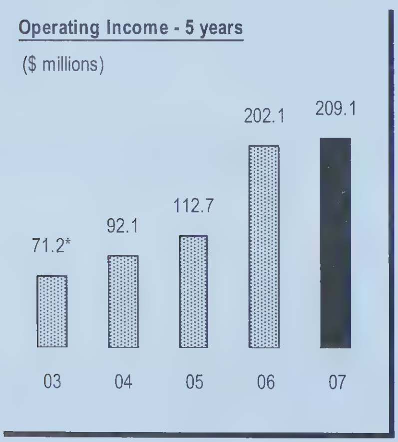


*restated

Firstly, approximately $16.9 million of the increase was directly attributable to including the entire year, rather than partial year, S&A expenses for the businesses acquired in 2006. Secondly, the Fund incurred an additional $6.9 million of foreign exchange losses in its operating business units as a result of the rise in the CDN. dollar compared to the U.S. dollar and in its ongoing conversion of U.S. cash to CDN. cash throughout the year. Thirdly, the corporate office expenses increased by approximately $1.8 million as a result of additional administrative costs for special projects and expenses for additional salaries, accounting fees, consulting fees and provincial capital taxes. As a result, S&A expenses, as a percentage of revenue increased to 13.0 percent from 11.9 percent in 2006.

Operating Income

Operating income increased by $7.0 million, or 3.5 percent, to $209.1 million from $202.1 million in 2006 primarily due to the increase in revenue. However, operating income was negatively impacted by higher direct operating expenses and S&A expenses and the poor operating performance by those business units associated with drilling activity, which experienced lower revenues and competitive pricing pressures. The Trucking/Logistics segment's operating income increased by approximately $3.5 million, mainly due to the inclusion of Kleysen for the entire year. The Oilfield Services segment's operating income increased by approximately $9.7 million, which was the result of strong year-over-year growth in each of the Production Services, Specialized Services and Drilling Services groups, offset by a decrease in the Drilling Related Services business units. Operating margins, as a percentage of revenue, decreased to 18.7 percent from 20.1 percent in 2006.



*restated

Depreciation on Property, Plant and Equipment

Depreciation increased by $16.0 million to $57.7 million from $41.7 million in 2006. The majority of the increase was due to the depreciation on the capital assets assumed in the acquisitions completed during 2006.

Amortization on Intangible Assets

Amortization increased by $5.9 million to $16.8 million in 2007 from $10.9 million in 2006 mainly due to the intangible assets assumed in the acquisitions made during 2006.

Unrealized Gains and Losses on Foreign Exchange

Unrealized Foreign Exchange Gain *($ millions)*	U.S.$ Debt	Exchange Rate	CDN. Equivalent
January 1, 2007 - beginning balance	$ 150.0	1.17	$ 175.5
September 2007 - additional	85.0	1.04	88.5
Total	235.0		264.0
December 31, 2007 - balance	235.0	0.99	232.6
Unrealized gain on U.S. dollar debt			31.4
Unrealized loss on U.S. dollar cash held at year end			4.7
Net unrealized foreign exchange gain in 2007			$ 26.7

The Fund recorded an unrealized gain on foreign exchange of $26.7 million. This unrealized gain on foreign exchange mainly reflected the impact of the change over the year in the value of the CDN. dollar relative to the U.S. dollar on the Fund's U.S. dollar denominated debt. This change in the relative value of the currencies created a $31.4 million gain in relation to the Fund's U.S. dollar debt which was offset by a $4.7 million decrease in the value of the Fund's U.S. dollar cash reserves held at year end. In 2006 the Fund recorded a $7.5 million unrealized loss on foreign exchange, as the CDN. dollar declined in value relative to the U.S. dollar from the date the Fund incurred the U.S. dollar debt to December 31, 2006.

Interest on Long-term Debt and Other Interest

Total interest expense increased to $21.1 million in 2007 from $13.6 million in 2006 reflecting the full year's interest on the Senior Guaranteed Unsecured Notes issued on June 29, 2006, and the new interest on the Senior Guaranteed Unsecured Notes issued September 5, 2007, and to a lesser extent, the long-term debt assumed in the acquisitions made in 2006. The increase was partially offset by the payout of certain loans during the year and lower interest on U.S. denominated debt as a result of a weaker U.S. dollar compared to the CDN. dollar. The Fund's debt-to-equity ratio at December 31, 2007 was 0.36:1 compared to 0.24:1 at December 31, 2006. The increase in the debt-to-equity ratio was due to two factors. Firstly, the increase in long-term debt by virtue of the issuance of the Series E and Series F private notes on September 5, 2007, and secondly, the reduction of unitholders' equity that occurred by virtue of recognizing a $275.0 million impairment of goodwill and intangible assets at year-end.

Gains and Losses on Sale of Property, Plant and Equipment and Investments

In 2007 the Fund incurred a loss of $0.7 million on the sale of $16.4 million of property, plant and equipment and investments compared to a $1.4 million gain on the sale of $17.4 million of property, plant and equipment and investments in 2006. Aggregate gains and losses on the sale of property, plant and equipment over the past five years amounted to a $0.1 million net gain which reflects the reasonableness of the Fund's depreciation rates.

Income Taxes

($ millions) *Years ended December 31*		2007		2006
(Loss) income before income taxes and earnings from equity investments	**$**	**(135.5)**	$	129.7
Income tax rate		**33%**		33%
Computed expected income tax expense (recovery)		**(44.7)**		42.8
Add (less):				
Impairment of goodwill		**84.0**		—
Amounts included in Trust income		**(46.9)**		(31.3)
Non-deductible unit-based compensation		**0.8**		0.7
Reduction of future tax balances to enacted income tax rule changes		**(12.6)**		(11.2)
Future tax adjustment on temporary differences in flow-through entities		**3.1**		—
Non-taxable portion of unrealized foreign exchange (gain) loss		**(4.4)**		1.2
Other		**7.5**		0.4
Provision for income taxes	**$**	**(13.2)**	$	2.6

For the year ended December 31, 2007, the Fund recorded an income tax recovery of $13.2 million compared to an income tax expense of $2.6 million in 2006. The $15.8 million decrease was mainly attributable to a combination of two factors. Firstly, the Fund's taxes were reduced by $46.9 million by virtue of the movement of taxable income to the unitholders, as compared to a reduction of $31.3 million in 2006. Secondly, the decrease was partially offset by additional future tax on the Fund by virtue of the Federal government's enacted tax on trusts.

Earnings from Equity Investments

Earnings from equity investments improved by $2.6 million to $3.6 million in 2007 from $1.0 million in 2006. In 2006, the earnings from equity investments consisted of earnings from Beaufort Oilfield Support Services Ltd. ("BOSS"), Mackenzie Delta Integrated Oilfield Services Ltd. ("MDIOS") and Pe Ben USA Inc. ("Pe Ben USA"). The Fund's equity investments in BOSS and MDIOS were transferred to Horizon North Logistics Inc. on June 1, 2006 as part of a plan of arrangement. Also, on June 1, 2006, the Fund entered into an asset purchase agreement whereby the Fund sold certain operating assets to Pe Ben USA for consideration of U.S. $0.5 million of debt and U.S. $0.5 million of preferred shares entitling the Fund to a 50 percent equity interest in Pe Ben USA.

Impairment of Goodwill and Intangible Assets

For the year ended December 31, 2007, the Fund recorded an impairment of goodwill and intangible assets of $250.0 million and $25.0 million, respectively, which relates to the impairment in the Oilfield Services segment (See Note 5 and 6 of the 2007 Annuals).

Net Income and Loss

The Fund recorded a net loss of $118.7 million in 2007, a decrease of $246.8 million from net income of $128.1 million in 2006. This decrease was almost entirely attributable to the $275.0 million impairment of goodwill and intangible assets recognized in 2007. To a much lesser extent the Fund incurred higher depreciation, amortization and interest on long-term debt which was partially offset by higher operating income, higher unrealized foreign exchange gains and a reduction of future taxes. The Fund would have generated net income of $149.6 million during 2007 if it had not recognized a $275.0 million impairment of goodwill and intangible assets. The Fund experienced a loss of $1.45 per unit during 2007, however, it would have generated earnings of $1.83 per unit, compared to $1.86 per unit in 2006, if it had not recognized the $275.0 million impairment of goodwill and intangible assets.

2007 ANNUAL SEGMENTED RESULTS

($ millions) Year ended December 31, 2007	Oilfield Services	Trucking/Logistics	Corporate and intersegment eliminations	Total
	$	$	$	$
Revenue	685.4	437.0	(2.9)	1,119.5
Direct operating expenses	448.8	326.4	(10.2)	765.0
Selling and administrative expenses	85.3	46.3	13.8	145.4
Operating income	151.3	64.3	(6.5)	209.1

($ millions) Year ended December 31, 2006	Oilfield Services	Trucking/Logistics	Corporate and intersegment eliminations	Total
	$	$	$	$
Revenue	604.3	400.4	(1.4)	1,003.3
Direct operating expenses	392.4	298.4	(8.7)	682.1
Selling and administrative expenses	70.3	41.2	7.6	119.1
Operating income	141.6	60.8	(0.3)	202.1

OILFIELD SERVICES SEGMENT

The Fund provides the energy sector in western and northern Canada with a wide range of services related to the drilling for oil and natural gas, infrastructure development and capital projects. Energy companies generate their income from the sale of the commodities they produce and as such their decision to deploy capital is primarily dependent on the cash flows generated by the combination of production levels and commodity prices. The Fund made a series of acquisitions in 2006 and 2007 including Pe Ben, Spearing, Burnell, Withers, Formula Powell, Swanberg, Brady and Pro North (collectively, the "Oilfield Services Acquisitions") to increase its presence in the oilfield services sector. The services provided by the Fund in its Oilfield Services segment can generally be categorized as follows:

Drilling Related Services: dependent on oil and natural gas drilling activity in western and northern Canada.

- Mullen Oilfield Services L.P. ("Mullen Oilfield")
- FSJ L.A.N.D. Transport L.P. ("FSJ LAND")
- Swanberg Bros. Trucking L.P. ("Swanberg") (Acquired June 1, 2006)
- Pe Ben Oilfield Services L.P. ("Pe Ben") (Acquired January 12, 2006)
- Withers L.P. ("Withers") (Acquired June 1, 2006)
- Formula Powell L.P. ("Formula Powell") (Acquired June 1, 2006)

Drilling Services: dependent on oil and natural gas drilling activity and core drilling for the oilsands industry.

- OK Drilling Services L.P. ("OK Drilling")
- TREO Drilling Services L.P. ("TREO") (Cora Lynn Drilling L.P. and Schmidt Drilling L.P. combined on November 1, 2006)

Production Services: dependent on transporting crude oil and other fluids servicing wells in western Canada.

- E-Can Oilfield Services L.P. ("E-Can")
- Heavy Crude Hauling L.P. ("Heavy Crude Hauling")
- Spearing Service L.P. ("Spearing") (Acquired February 28, 2006)
- Brady (Acquired November 6, 2006)
- Pro North Oilfield Services (Acquired October 31, 2007)

Specialized Services: dependent on major capital projects, large diameter pipeline work, pipeline storage and water management services.

- Premay Equipment L.P. ("Premay Equipment")
- Premay Pipeline Hauling L.P. ("Premay Pipelines")
- Burnell Contractors L.P. ("Burnell") (Acquired February 28, 2006)
- Canadian Dewatering (Acquired July 31, 2006) (combined with Northern Underwater Systems L.P. on January 1, 2007)

A more detailed description of each of these business units is set forth in the Fund's Annual Information Form dated February 27, 2008, which is available on SEDAR at www.sedar.com, the Fund's website at www.mullen-group.com or on request, free of charge, from the Fund's Investor Services group, ir@mullen-group.com.

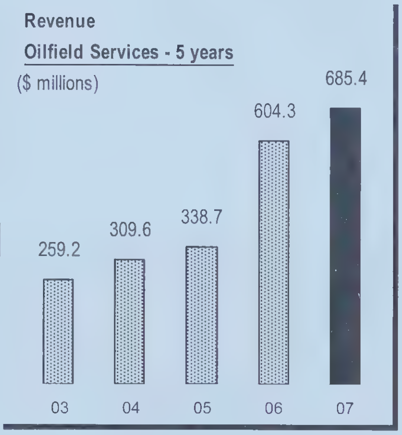
In 2006, drilling activity remained strong until September at which time gas well drilling activity started to slow down as the price of natural gas declined and this trend continued into 2007. The decreased activity in the gas sector adversely affected the Fund's Drilling Related Services and Drilling Services businesses. The businesses in the Oilfield Services segment operate in a competitive environment with competitors ranging from small local or regional businesses to large international companies.

Revenue

This segment represents 61.1 percent of the pre-consolidated revenue for the year compared to approximately 60.0 percent in 2006. Revenue in the Oilfield Services segment is generated through its 17 business units. In 2007 the segment's revenue increased by 13.4 percent to $685.4 million from $604.3 million in 2006. The increase of $81.1 million was mainly due to increased revenue in the Production Services and Specialized Services groups, which was partially offset by a decrease in revenue in the Drilling Related Services group.

Annual Revenue - Oilfield Services			
($ millions)	**2007**	2006	Change
	$	$	$
Company	**501.7**	435.7	66.0
Contractors	**180.4**	165.8	14.6
Other	**3.3**	2.8	0.5
Total	**685.4**	604.3	81.1

The Production Services group benefited by its association with the production side of the oil and gas business adding $56.2 million of revenue as a result of the full year's inclusion of Spearing and Brady and the strong performance of both E-Can and Heavy Crude.



The Specialized Services group continued to benefit from major oil and gas capital projects, particularly in the Alberta oilsands, and increased pipeline activity. Its revenue increased by approximately $48.5 million on a year-over-year basis as a result of the strong performances of Premay Pipelines and Canadian Dewatering.

The business units associated with Drilling Related Services experienced a decrease of approximately $16.6 million in revenue as a direct result of the decline in drilling activity in western Canada. In the Drilling Services group the increase in revenue generated by TREO Drilling was more than offset by OK Drilling's year-over-year decrease in revenue, once again as a direct result of the decline in drilling activity in western Canada.

The Other revenue of $3.3 million consisted primarily of rent and other miscellaneous revenue.

Direct Operating Expenses

Annual Direct Operating Expenses - Oilfield Services			
($ millions)	**2007**	2006	Change
	$	$	$
Company			
Wages and benefits	**141.6**	118.4	23.2
Fuel	**36.5**	27.2	9.3
Repairs and maintenance	**74.7**	63.3	11.4
Operating supplies	**36.6**	30.1	6.5
Other	**23.7**	23.4	0.3
	313.1	262.4	50.7
Contractors	**135.7**	130.0	5.7
Total	**448.8**	392.4	56.4

Direct operating expenses increased by 14.4 percent to $448.8 million, or 65.5 percent of revenue, compared to $392.4 million or 64.9 percent of revenue in 2006. This equates to a gross margin of 34.5 percent in 2007 compared to 35.1 percent in 2006. Of the $56.4 million increase, $30.6 million was associated with the incremental revenues generated by the Oilfield Services Acquisitions and approximately $45.9 million was associated with the increased level of activity experienced by E-Can and Heavy Crude due to their association with the production side of the oilfield service industry and by Premay Pipelines and Canadian Dewatering due to their association with infrastructure development, which was offset by lower costs by virtue of the decreased revenue in Drilling Services and Drilling Related Services.

The lower gross margin in 2007 was due to a combination of lower drilling activity and pricing pressures in the Drilling Related Services business units. All of the major direct operating expenses increased slightly as a percentage of revenue most noticeably in the business units associated with Drilling Related Services. In addition, the Drilling Related Services business units could not reduce their operating costs proportionately with the revenue declines due to the fixed nature of some of these costs. The Other expenses shown as company direct operating expenses consist mainly of operating leases, equipment rent, insurance, taxes and licensing costs.

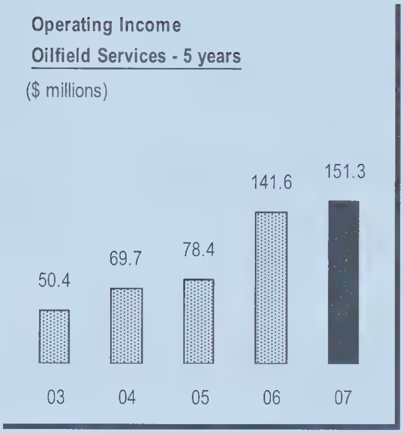
Selling and Administrative Expenses

Annual Selling and Administrative Expenses - Oilfield Services			
($ millions)	**2007**	2006	Change
	$	$	$
Wages and benefits	**37.7**	31.4	6.3
Communications, utilities and general supplies	**24.4**	19.6	4.8
Profit share	**12.7**	12.2	0.5
Rent and other	**10.5**	7.1	3.4
Total	**85.3**	70.3	15.0

S&A expenses were $85.3 million, or 12.4 percent of revenue, up from $70.3 million or 11.6 percent of revenue in 2006. The $15.0 million increase, or 21.3 percent, was mainly due to the Oilfield Services Acquisitions which accounted for $9.7 million of the increase. The balance of the increase was associated with growth in the Production Services and Specialized Services businesses, which included costs incurred in the startup phase of several new projects, and one-time costs associated with staff reductions in Drilling Related Services. The increase was partially offset by various cost reduction initiatives instituted in Formula Powell, Swanberg and Withers, businesses in the Drilling Related Services group.

Operating Income

Operating income increased by $9.7 million, or 6.9 percent, to $151.3 million from $141.6 million in 2006. This increase was attributable to increased operating income of $28.7 million in Production Services, Specialized Services and Drilling Services, offset by a decrease of $19.1 million in operating income in Drilling Related Services where a decline in revenues and pricing levels combined to squeeze profitability. Operating income as a percent of revenue decreased from 23.4 percent in 2006 to 22.1 percent in 2007.



Capital Expenditures

The Oilfield Services segment invested $46.3 million in capital assets and disposed of $9.6 million, which were either redundant or required upgrading. Of the $36.7 million net capital expenditures in 2007, $4.1 million was invested into a camp in northern Alberta, $18.0 million was for upgrading existing field operating equipment, trucks and trailers and $14.6 million of the expenditures were used to acquire equipment to capitalize on growth opportunities in certain business units in Production Services and Specialized Services. In 2006 capital expenditures were $69.2 million due to higher capital expenditures made by the Producers group, which were committed to prior to its acquisition by the Fund.

TRUCKING/LOGISTICS SEGMENT

The transportation and distribution of freight is a multi-billion dollar business in Canada and is generally described as both highly competitive and fragmented. The Trucking/Logistics segment consists of eight business units that provide various types of trucking services in Canada, the continental U.S. and Mexico.

Business Unit	Services Provided	Market Area
Mullen Trucking L.P.	Irregular route truckload and less-than-truckload ("LTL") flatbed, van and specialized hauling services	Canada and U.S.
Cascade Carriers L.P.	Dry bulk freight hauling and pressurized gas transport using specialized trailers	Western Canada
Grimshaw Trucking L.P.	Regional, scheduled LTL service, flatbed and van services	Western Canada and the Northwest Territories
Mill Creek Motor Freight L.P.	Irregular route truckload and LTL van and flatbed services	Canada, U.S. and Mexico
Tenold Transportation Limited Partnership	Irregular route truckload and LTL van service, warehousing and custom cable cutting and reel services	Canada and U.S.

Business Unit	Services Provided	Market Area
Kleysen Group L.P.	Irregular route truckload and LTL flatbed and van service, dry bulk hauling, intermodal, transload and storage services	Canada and U.S.
Payne Transportation L.P.	Irregular route truckload and LTL flatbed and van service	Canada and U.S.
Pe Ben Bulk Ltd.	Regional liquid petroleum hauling	Western Canada and the Northwest Territories

A more detailed description of each of these business units is set forth in the Fund's Annual Information Form dated February 27, 2008, which is available on SEDAR at www.sedar.com, the Fund's website at www.mullen-group.com or on request, free of charge, from the Fund's Investor Services group, ir@mullen-group.com.

Revenue

This segment represented 38.9 percent of the pre-consolidated revenue for the year compared to approximately 40.0 percent in 2006. Revenue in the Trucking/Logistics segment is generated through its eight business units by utilizing Contractors and Company Equipment.

Annual Revenue - Trucking/Logistics			
($ millions)	**2007**	2006	Change
	$	$	$
Company	**155.8**	145.2	10.6
Contractors	**279.8**	252.0	27.8
Other	**1.4**	3.2	(1.8)
Total	**437.0**	400.4	36.6

In 2007 the segment's revenue increased by 9.1 percent to $437.0 million from $400.4 million in 2006. The increase of $36.6 million was mainly due to a full year's inclusion of Kleysen, which added incremental revenues of $43.9 million. This increase, as well as small increases by Mullen Trucking and Cascade resulting from the strong economy in western Canada, was partially offset by decreased revenue in Mill Creek and Payne due to lower demand for transportation services and competitive pricing in eastern Canada. For the year ended December 31, 2007, revenue invoiced in U.S. funds increased to $67.4 million from $66.9 million in 2006. The Other revenue of $1.4 million consisted primarily of rent and other miscellaneous revenue.

Direct Operating Expenses

Direct operating expenses include the cost of Contractors and the direct operating costs of Company Equipment. Contractors consist of subcontractors, who are hired on an "as-needed" basis, and owner-operators who are licensed through and work exclusively for the Fund's business units. Contractors are paid either as a percentage of the load revenue or at a fixed rate per mile.

Annual Direct Operating Expenses - Trucking/Logistics			
($ millions)	**2007**	2006	Change
	$	$	$
Company			
Wages and benefits	**34.8**	34.5	0.3
Fuel	**13.2**	15.2	(2.0)
Repairs and maintenance	**23.4**	20.2	3.2
Operating supplies	**16.7**	10.3	6.4
Other	**25.7**	25.6	0.1
	113.8	105.8	8.0
Contractors	**212.6**	192.7	19.9
Total	**326.4**	298.5	27.9

The direct operating expenses increased by 9.3 percent to $326.4 million, or 74.7 percent of revenue, from $298.5 million or 74.6 percent of revenue in 2006. The gross margin decreased slightly to 25.3 percent compared to 25.4 percent in 2006. The full year's inclusion of Kleysen added $33.7 million of direct operating costs, which was somewhat offset by lower direct operating costs in Payne and Mill Creek, both of which were able to maintain a disciplined approach to controlling costs. The Other expenses consist mainly of operating leases, equipment rent, insurance, taxes and licensing costs.

Selling and Administrative Expenses

S&A expenses, consisting primarily of S&A salaries, employee profit share and other administrative costs to support the operations, increased to $46.3 million or 10.6 percent of revenue from $41.2 million or 10.3 percent of revenue in 2006. The increase of $5.1 million, or 12.4 percent, was mostly due to a full year's inclusion of Kleysen and losses of $1.9 million on foreign exchange due to the rising CDN. dollar relative to the U.S. dollar offset by lower profit share.

Annual Selling and Administrative Expenses - Trucking/Logistics			
($ millions)	**2007**	2006	Change
	$	$	$
Wages and benefits	**24.1**	21.5	2.6
Communications, utilities and general supplies	**11.1**	10.3	0.8
Profit share	**7.1**	8.0	(0.9)
Foreign exchange	**1.9**	(0.3)	2.2
Rent and other	**2.1**	1.7	0.4
Total	**46.3**	41.2	5.1

Operating Income

Operating income increased by $3.5 million, or 5.8 percent, to $64.3 million from $60.8 million in 2006.

This increase was mainly due to the full year's inclusion of Kleysen, which added $5.6 million of operating income, which was offset by lower operating income in Grimshaw, Mill Creek and Payne.

Operating income as a percentage of revenue decreased from 15.2 percent in 2006 to 14.7 percent in 2007. This decrease in operating margin reflected the foreign exchange losses of $1.9 million incurred in the segment, compared to foreign exchange gains of $0.3 million in 2006.

Capital Expenditures

Gross capital expenditures for the segment in 2007 were $13.6 million and disposals were $4.4 million, resulting in net capital expenditures of $9.2 million. This compares to $16.8 million of gross capital expenditures and disposals of $4.9 million in 2006, for net capital expenditures of $11.9 million. The net capital expenditures in both 2007 and 2006 were primarily for upgrading and replacing existing trucks and trailers.

CORPORATE

In 2007 the corporate head office had administrative expenses of $9.1 million and revenue of $2.7 million, mainly for interest income and other miscellaneous income, which resulted in a net operating loss of $6.4 million. In 2006, net administrative expenses amounted to $2.6 million with revenue of $2.3 million for net operating loss of $0.3 million. On a year-over-year basis, the corporate head office administrative costs increased by $6.5 million of which $4.7 million was attributable to a year-over-year increase in realized foreign exchange losses. The balance of $1.8 million was attributable to additional administrative salaries required to centralize certain business unit functions in corporate head office, increased internal control and audit costs, higher provincial capital taxes, additional staff acquired to support the growth in the Fund, higher accounting costs arising from acquisitions, increased information technology and consulting costs arising from the Producers acquisition and additional unit-based compensation of $0.8 million due to the options issued in connection with the Producers acquisition.

CAPITAL RESOURCES AND LIQUIDITY

Sources and Uses of Cash

($ millions) *Years ended December 31*	2007	2006
Cash (bank indebtedness), beginning of year	$ **49.4**	$ (21.9)
Sources of cash:		
Funds provided from operations	**193.8**	195.3
Changes in non-cash working capital items	**18.6**	—
Proceeds of long-term debt	**107.9**	334.1
Proceeds from Trust Unit issuances	**1.3**	97.1
Cash distribution from equity investment	**3.1**	—
Proceeds on sale of investment	**0.1**	0.1
Other assets	**4.0**	2.0
Total sources	**328.8**	628.6
Uses of cash:		
Changes in non-cash working capital items	—	3.2
Repayment of long-term debt	**23.7**	162.4
Distributions paid	**147.0**	118.1
Acquisitions	**11.9**	182.1
Net property, plant and equipment additions	**80.2**	85.3
Repurchase of Trust Units	**28.7**	—
Purchase of investments	**7.5**	—
Total usage	**299.0**	551.1
Increase in cash	**29.8**	77.5
Less net bank indebtedness assumed with acquisitions	—	6.2
Cash, end of year	$ **79.2**	$ 49.4

The funds from operations in 2007 decreased by 0.8 percent to $193.8 million, down slightly from $195.3 million in 2006. On a per unit basis, the Fund generated $2.38 in 2007 as compared to $2.84 in 2006 due to a year-over-year increase in the weighted average number of units outstanding from 68,886,000 units in 2006 to 81,596,000 in 2007. This increase arose due to the issuance of units as consideration in the Producers acquisition completed in June 2006.

In addition to the cash received from operations, the Fund received $107.9 million in proceeds from the issuance of long-term debt in the form of Senior Guaranteed Unsecured Notes, net proceeds of $1.3 million from the issuance of 107,460 Trust Units, $3.1 million by virtue of a cash distribution from the Fund's equity investment in Pe Ben USA, $0.1 million from the sale of an investment and $4.0 million from a decrease in other assets.

Cash was used to pay distributions of $147.0 million, finance net capital expenditures of $80.2 million, repurchase Trust Units of $28.7 million, acquire EK and Pro North for $11.9 million, repay long-term debt of $23.7 million, and purchase a portfolio investment for $7.5 million.

Discretionary funds from operations or funds generated from operations after net capital expenditures, increased slightly to $113.6 million or $1.39 per unit, up from $110.0 million or $1.60 per unit in 2006. Discretionary funds are available on an after-tax basis to repay debt, pay distributions, or pay for future acquisitions and expansions.

On September 5, 2007, the Fund increased its long-term debt by $107.9 million through issuing Senior Guaranteed Unsecured Notes by way of private placement of U.S. $85.0 million of Series E Notes and CDN. $20.0 million of Series F Notes. The Series E and Series F Notes both mature on September 27, 2017 and bear interest at 5.90 percent and 5.47 percent per annum, respectively (See Note 8 of the 2007 Annuals). Interest is payable semi-annually.

Cash Distributions

($ millions) *Years ended December 31*	2007	2006
Cash distributions declared to unitholders	**$ 146.8**	$ 124.0
Cash flow from operations after non-cash working capital items	**212.4**	192.2
Net (loss) income	**(118.7)**	128.1
Excess of cash flow from operations over cash distributions declared	**65.6**	68.2
(Deficiency) excess of net income over cash distributions declared	**$ (265.5)**	$ 4.1

The disclosure of distributable cash is, in all material respects, in accordance with the National Policy 41-201 for Income Trusts and Other Indirect Offerings.

For the year ended December 31, 2007, the excess of cash flow from operations after non-cash working capital items over cash distributions was $65.6 million compared to $68.2 million in 2006. The Fund had a deficiency of net income over cash distributions declared of $265.5 million for the year ended December 31, 2007, as compared to an excess of $4.1 million in 2006. The deficiency was a direct result of recognizing an impairment of goodwill and intangible assets totalling $275.0 million, a non-cash item. Income before recognizing the impact of the impairment of goodwill and intangible assets was $149.6 million, which was $2.8 million greater than cash distributions declared.

($ millions) *Years ended December 31*	2007	2006
Income before impairment of goodwill and intangible assets	**$ 149.6**	$ 128.1
Cash distributions declared to unitholders	**146.8**	124.0
Excess of income over cash distributions declared	**$ 2.8**	$ 4.1

Cumulative Cash Distributions

($ millions)	Six Months ended December 31, 2005	Twelve Months ended December 31, 2006	Twelve Months ended December 31, 2007	Total Since Inception
Cash distributions declared to unitholders	$ **38.2**	$ 124.0	$ 146.8	$ 309.0
Cash flow from operations after non-cash working capital items	**26.8**	192.2	212.4	431.4
Net income (loss)	**40.8**	128.1	(118.7)	50.2
(Deficiency) excess of cash flow from operating activities over cash distributions declared	**(11.4)**	68.2	65.6	122.4
Excess (deficiency) of net income over cash distributions declared	$ **2.6**	$ 4.1	$ (265.5)	$ (258.8)

Since the inception of the Fund, cash flow from operations after non-cash working capital items of $431.4 million has exceeded the Fund's cumulative distributions declared of $309.0 million. During this period there was a deficiency of net income over cash distributions declared totalling $258.8 million, which deficiency was entirely attributable to the impairment of goodwill and intangible assets of $275.0 million recognized in 2007. Cumulative income before adjusting for the impairment of goodwill and intangible assets was $9.5 million greater than cash distributions declared.

Contractual Obligations (see Notes 9 and 14 of the 2007 Annuals)

	Maximum Payments				
($ millions)	Total	1 Year	2 - 3 Years	4 - 5 years	5 years and thereafter
	$	$	$	$	$
Long-term debt	402.4	3.8	4.6	2.3	391.7
Operating leases	32.3	14.2	15.4	2.1	0.6

The Fund began the year with $346.7 million of long-term debt and assumed $2.8 million of long-term debt with the acquisition of EK and Pro North (see Note 2 of the 2007 Annuals). During the year, the Fund borrowed a further $107.9 million by virtue of its private placement and repaid $23.6 million to exit 2007 with long-term debt of $402.4 million after adjusting for unrealized foreign exchange gains of $31.4 million (see Note 9 of the 2007 Annuals). At year end, the Fund's debt-to-equity ratio was 0.36:1 compared to the ratio of 0.24:1 at the end of 2006. Operating leases include building and equipment rent used for the Fund's operations (see Note 14 of the 2007 Annuals).

Capital Expenditures

The Fund invested in net capital expenditures of $80.2 million in 2007, which was $5.1 million lower than in 2006. Gross expenditures of $96.7 million consisted of $40.5 million for long-term assets such as land and buildings, $33.5 million for trucks and trailers and $22.7 million for automobiles, equipment and other capital items, offset by $17.9 million of disposals. The $80.2 million of net capital expenditures was split among the Oilfield Services segment as to $36.7 million, the Trucking/Logistics segment as to $9.2 million and other of $34.3 million, which includes corporate head office and non-segmented businesses. Over the long-term the Fund expects net capital expenditures to approximate depreciation in order to sustain the business. Net capital expenditures exceeded depreciation in 2007 due to two factors. Firstly, in 2007 the Fund incurred $40.5 million of expenditures for land and buildings to reduce the Fund's lease commitments, which consisted of land in Fort Nelson, British Columbia, land and buildings in Grande Prairie and Calgary, Alberta, site development in Edmonton, Alberta and construction of a new facility in Lloydminster, Alberta. Secondly, approximately $14.6 million was targeted for growth opportunities in certain business units in the Oilfield Services segment relating to Production Services and Specialized Services.

Acquisitions

During 2007, the Fund acquired EK and Pro North for total cash consideration of $11.9 million (see Note 2 of the 2007 Annuals).

Unitholders' Capital

($ millions)	Trust Units	$	B Units	$	Total Units	$
Balance at December 31, 2006	61,328,738	826.9	20,610,845	374.8	81,939,583	1,201.7
Units issued on exercise of options	107,460	2.7	—	—	107,460	2.7
Trust Units issued on exchange of B Units	438,983	6.5	(438,983)	(6.5)	—	—
Units repurchased	(1,703,700)	(25.0)	—	—	(1,703,700)	(25.0)
Units repurchased pending cancellation	400,500	5.9	—	—	400,500	5.9
Balance at December 31, 2007	60,571,981	817.0	20,171,862	368.3	80,743,843	1185.3

Unitholders' capital decreased by $16.4 million in 2007, which reflected the combination of the repurchase of 1,703,700 Trust Units under the Normal Course Issuer Bid at an average price of $16.82 per unit, partially offset by the repurchased units pending cancellation of 400,500 and the issuance of 107,460 Trust Units upon the exercise of options (see Note 11 of the 2007 Annuals).

Of the 1,703,700 Trust Units repurchased, 400,500 Trust Units were pending cancellation at December 31, 2007. Accordingly, the purchase price attributable to the Trust Units pending cancellation has been recorded in unitholders' equity separate from unitholders' capital.

SUMMARY OF QUARTERLY RESULTS

The first quarter of the year traditionally has the highest revenue and net income. This is primarily due to the seasonality of a significant portion of the Fund's operations, which relate to core drilling, the moving of heavy equipment, the transportation of drilling rigs and conductor pipe setting in northern and western Canada. The seasonality of the Fund's business follows the seasonal patterns of western Canada's oil and natural gas exploration which peaks in the winter months and declines during the spring thaw. The spring frost comes out of the ground, making roads incapable of supporting heavy equipment and difficult to drill for oil and natural gas. As a result, demand for these services is traditionally highest in the first quarter and lowest in the second quarter.

Summary of Quarterly Results

(Unaudited)	2007			
($ millions except per unit amounts)	**Q1**	**Q2**	**Q3**	**Q4**
	$	**$**	**$**	**$**
Revenue	**365.7**	**218.9**	**261.3**	**273.6**
Operating income	**86.7**	**24.7**	**48.3**	**49.4**
Income before impairment of goodwill and intangible assets	**58.3**	**16.6**	**38.0**	**36.7**
Earnings per unit before impairment of goodwill and intangible assets	**$0.71**	**$0.21**	**$0.46**	**$0.45**
Impairment of goodwill and intangible assets	**—**	**—**	**—**	**275.0**
Net income (loss)	**58.3**	**16.6**	**38.0**	**(231.6)**
Earnings per unit				
Basic	**$0.71**	**$0.21**	**$0.46**	**$(2.85)**
Diluted	**$0.71**	**$0.20**	**$0.46**	**$(2.85)**
Funds from operations	**81.5**	**23.3**	**44.2**	**44.8**
Funds from operations per unit	**$0.99**	**$0.29**	**$0.54**	**$0.56**

(Unaudited)	2006			
($ millions except per unit amounts)	**Q1**	**Q2**	**Q3**	**Q4**
	$	**$**	**$**	**$**
Revenue	245.9	200.0	273.4	284.0
Operating income	59.8	34.5	54.5	53.3
Income before impairment of goodwill and intangible assets	43.1	38.9	32.1	14.0
Net income	43.1	38.9	32.1	14.0
Earnings per unit				
Basic	$0.86	$0.64	$0.39	$0.17
Diluted	$0.85	$0.63	$0.39	$0.17
Funds from operations	58.3	34.2	51.9	50.9
Funds from operations per unit	$1.16	$0.56	$0.63	$0.62

The increase in revenue and operating income in the first and second quarter of 2007 was primarily due to the acquisitions made in the second quarter of 2006 and increased demand for the Fund's services in the Production Services and Specialized Services businesses, partially offset by the slower demand for the Fund's services that relate to natural gas drilling activity. The decrease in revenue and operating income in the third and fourth quarter was primarily due to the weaker performance in the Drilling Related Services businesses, partially offset by the strong demand in the Fund's Production Services and Specialized Services businesses.

FOURTH QUARTER FINANCIAL RESULTS

Unaudited *($ millions, except per unit amounts)*	Three Months ended December 31 2007	2006	Change
	$	$	%
Revenue	**273.6**	284.0	(3.7)
Operating income	**49.4**	53.3	(7.3)
Income before impairment of goodwill and intangible assets	**36.7**	14.0	162.1
Earnings per unit before impairment of goodwill and intangible assets	**$0.45**	$0.17	164.7
Net (loss) income	**(231.6)**	14.0	(1,754.3)
Earnings per unit - basic	**$(2.85)**	$0.17	(1,764.7)
Funds from operations	**44.8**	50.9	(12.0)
Funds from operations per unit	**$0.56**	$0.62	(9.7)

Revenue

Consolidated revenue in the fourth quarter was $273.6 million, down $10.4 million or 3.7 percent from $284.0 million in 2006. The decrease was due to the significant declines in revenue experienced by those business units tied to natural gas drilling activity in western Canada, as revenue in the Drilling Related Services businesses declined on a year-over-year basis by $30.7 million for the three months ended December 31, 2007. This decrease was partially offset by the continued strong performance by the Fund's business units in Production Services and Specialized Services, by the acquisitions of Brady in November 2006 and Pro North in October 2007 and by higher revenues in the Trucking/Logistics segment.

Q4 Consolidated Revenue ($ millions)	**2007**	2006	Change
	$	$	$
Company	**156.2**	172.3	(16.1)
Contractors	**114.9**	108.8	6.1
Other	**2.5**	2.9	(0.4)
Total	**273.6**	284.0	(10.4)

Direct Operating Expenses

Direct operating expenses decreased by $7.0 million to $191.1 million from $198.1 million in 2006. The decrease was primarily related to the decline in costs associated with the decline in revenue experienced by those business units tied to natural gas drilling activity in western Canada. The majority of the direct operating costs are variable and generally increase or decrease with revenue changes. These costs consist of Contractor costs, which are all variable, and direct operating costs associated with revenue earned by Company Equipment, such as wages, benefits, repairs and maintenance and fuel, which are all variable costs. Operating supplies include both variable and fixed costs. Direct operating expenses as a percentage of revenue remained constant at 69.8 percent in 2007 and 2006, reflecting the variable nature of the expenses and a disciplined approach to cost controls.

Q4 Consolidated Direct Operating Expenses			
($ millions)	**2007**	2006	Change
	$	$	$
Company			
Wages and benefits	**40.9**	44.6	(3.7)
Fuel	**14.0**	12.5	1.5
Repairs and maintenance	**24.4**	28.3	(3.9)
Operating supplies	**15.9**	14.9	1.0
Other	**9.9**	12.2	(2.3)
	105.1	112.5	(7.4)
Contractors	**86.0**	85.6	0.4
Total	**191.1**	198.1	(7.0)

Selling and Administrative Expenses

S&A expenses increased slightly to $33.1 million from $32.6 million in 2006. The $0.5 million increase was mainly due to the inclusion of S&A expenses of Brady and Pro North and losses on foreign exchange. Salaries and profit share both declined year-over-year due to staff reductions and year-end profit share adjustments. Foreign exchange, which had a $3.1 million realized gain in 2006 due to the weakening CDN. dollar in the fourth quarter, became a $1.6 million expense in 2007 as U.S. currency received in the third quarter of 2007 was subsequently converted to cash when the CDN. dollar was stronger.

Q4 Consolidated Selling and Administrative Expenses			
($ millions)	**2007**	2006	Change
	$	$	$
Wages and benefits	**15.9**	17.6	(1.7)
Communications, utilities and general supplies	**9.8**	9.7	0.1
Profit share	**1.3**	3.2	(1.9)
Foreign exchange	**1.6**	(3.1)	4.7
Rent and other	**4.5**	5.2	(0.7)
Total	**33.1**	32.6	0.5

Operating Income

The operating income decreased by $3.9 million to $49.4 million from $53.3 million in 2006. Operating income, as a percentage of revenue, decreased to 18.1 percent, from 18.8 percent in 2006. This reflects lower margins in the Oilfield Services segment due to decreased activity resulting from relatively low natural gas prices, and slightly lower margins in the Trucking/Logistics segment due to foreign exchange losses.

Reconciliation of Operating Income to Net Income and Loss

Unaudited ($ millions, except per unit amounts)	Three Months ended December 31 2007	2006
	$	$
Operating income	**49.4**	53.3
Depreciation on property, plant and equipment	**(14.9)**	(12.8)
Amortization on intangible assets	**(4.4)**	(4.2)
Interest on long-term debt	**(6.1)**	(5.1)
Other interest	**—**	(0.1)
Unrealized gain (loss) on foreign exchange	**1.8**	(7.5)
Loss on sale of property, plant and equipment	**(0.8)**	(0.2)
Provision for income taxes	**17.6**	(9.8)
Earnings from equity investments	**0.8**	0.4
Impairment of goodwill and intangible assets	**(275.0)**	—
Net (loss) income	**(231.6)**	14.0
Earnings (loss) per unit - basic	**$(2.85)**	$0.17

Depreciation on Property, Plant and Equipment

Depreciation increased from $12.8 million to $14.9 million in 2007. The $2.1 million increase was mainly due to the capital assets assumed in the acquisitions of Brady, EK and Pro North.

Amortization of Intangible Assets

Amortization increased slightly from $4.2 million to $4.4 million in 2007 due to the acquisitions of Brady, EK and Pro North.

Unrealized Gains and Losses on Foreign Exchange

For the quarter ended December 31, 2007, the Fund recorded an unrealized gain on foreign exchange of $1.8 million. This mainly reflected the impact that the strengthening of the CDN. dollar relative to the U.S. dollar had on the U.S. dollar denominated Series A, Series B and Series E Senior U.S. Guaranteed Unsecured Notes. The unrealized gain on foreign exchange was net of the unrealized loss on foreign exchange in the Fund's U.S. denominated cash. For the same period in 2006, the Fund recorded an unrealized loss on foreign exchange of $7.5 million reflecting the weakening in the CDN. dollar relative to the U.S. dollar on the Series A and Series B Senior U.S. Guaranteed Unsecured Notes.

Interest on Long-Term Debt and Other Interest

Total interest for the three month period ended December 31, 2007 increased to $6.1 million from $5.2 million in the same period last year. The increase was due to additional interest from the Senior Guaranteed Unsecured Notes issued on September 5, 2007 and additional interest on long-term debt assumed in the acquisitions of EK and Pro North. The increase was partially offset by lower interest on U.S. denominated debt as a result of a weaker U.S. dollar compared to the CDN. dollar on a year-over-year basis.

Gains and Losses on Sale of Property, Plant and Equipment

For the quarter ended December 31, 2007, the Fund sold $2.9 million of certain redundant equipment and under utilized property, resulting in a net loss of $0.8 million.

Income Taxes

	Three Months ended December 31	
($ millions)	**2007**	**2006**
(Loss) income before income taxes and earnings from equity investments	**$ (250.0)**	$ 23.3
Income tax rate	**33%**	33%
Computed expected income tax expense (recovery)	**(82.5)**	7.7
Add (less):		
Impairment of goodwill	**84.0**	—
Amounts included in Trust income	**(11.9)**	(1.5)
Non-deductible unit-based compensation	**0.2**	0.1
Reduction of future tax balances to enacted income tax rate changes	**(11.2)**	—
Non-taxable portion of unrealized foreign exchange (gain) loss	**(0.3)**	1.2
Other	**4.1**	2.2
Provision for income taxes	**$ (17.6)**	$ 9.7

During the fourth quarter of 2007, the Fund recorded a total tax recovery of $17.6 million, compared to a total tax expense of $9.7 million in 2006. The $27.3 million year-over-year decrease in income taxes was mainly attributable to two factors. Firstly, there was a reduction of $11.9 million of taxes due to the flow of taxable income to the unitholders, as compared to $1.5 million in 2006. This $10.4 million difference was due to the fact that in 2006 the Fund had maximized its tax deductibility of interest on its internal debt by the end of September, and therefore had no deduction in the fourth quarter, whereas in 2007 the Fund had full tax deductibility of its interest on internal debt. Secondly, there was a substantial recovery due to Federal income tax rate reductions which reduced future income tax liability by $11.2 million in 2007. There was no such recovery in the same period in 2006.

Earnings from Equity Investments

Earnings from equity investments in Pe Ben USA amounted to $0.8 million in the three month period ended December 31, 2007, an increase of $0.4 million over the same period in 2006. The increase was mainly due to strong demand for Pe Ben USA's services.

Impairment of Goodwill and Intangible Assets

For the quarter ended December 31, 2007, the Fund recorded an impairment of goodwill and intangible assets of $250.0 million and $25.0 million, respectively, which relates to the impairment in the Oilfield Services segment (See Note 5 and 6 of the 2007 Annuals).

Net Income and Loss

The loss for the quarter ended December 31, 2007 amounted to $231.6 million, compared to net income of $14.0 million in 2006. This net loss in the quarter was due to the $275.0 million impairment of goodwill and intangible assets. Earnings (loss) per unit decreased to ($2.85) per unit in 2007 from $0.17 in 2006. Income before the impairment of goodwill and intangible assets was $36.7 million, or $0.45 per unit.

SEGMENTED INFORMATION - QUARTERLY RESULTS

($ millions) Three month period ended December 31, 2007	Oilfield Services	Trucking/Logistics	Corporate and intersegment eliminations	Total
	$	$	$	$
Revenue	160.2	113.7	(0.3)	273.6
Direct operating expenses	108.7	84.8	(2.4)	191.1
Selling and administrative expenses	20.3	9.8	3.0	33.1
Operating income	31.2	19.1	(0.9)	49.4

($ millions) Three month period ended December 31, 2006	Oilfield Services	Trucking/Logistics	Corporate and intersegment eliminations	Total
	$	$	$	$
Revenue	174.7	109.9	(0.6)	284.0
Direct operating expenses	119.4	81.4	(2.7)	198.1
Selling and administrative expenses	19.7	9.6	3.3	32.6
Operating income	35.6	18.9	(1.2)	53.3

OILFIELD SERVICES SEGMENT

Revenue

This segment generated approximately 58.5 percent of the pre-consolidated revenue in the quarter, down from approximately 62.0 percent in 2006. Revenue decreased by $14.5 million to $160.2 million from the prior year's $174.7 million mainly due to increased pricing pressures which resulted in revenue in the businesses associated with Drilling Related Services decreasing on a year-over-year basis by $30.7 million. Revenue in the Drilling Services group also decreased due to contract work that was delayed until 2008 and less demand for conductor pipe setting. The decreases were somewhat offset by revenue growth in the Production Services group, which benefited from both internal growth and from the acquisitions of Brady and Pro North, and by internal growth in the Specialized Services group.

Q4 Revenue - Oilfield Services			
($ millions)	**2007**	2006	Change
	$	$	$
Company	**114.6**	128.9	(14.3)
Contractors	**44.8**	44.6	0.2
Other	**0.8**	1.2	(0.4)
Total	**160.2**	174.7	(14.5)

Direct Operating Expenses

Direct operating expenses decreased by 8.9 percent to $108.7 million from $119.4 million in 2006. The $10.7 million decrease in costs was primarily related to the lower revenue generated in the Drilling Related Services and Drilling Services groups. This decrease was partially offset by increased costs in Production Services and Specialized Services, which related to their revenue increases. Direct operating costs, as a percentage of revenue, decreased slightly from 68.3 percent in 2006 to 67.9 percent in 2007, which equates to a gross margin of 32.9 percent in 2007 compared to 31.7 percent in 2006. Direct operating costs are mostly variable. The Contractor costs, which are incurred to earn contract revenue, are all variable and are based on the volume of work. The segment was able to reduce Contractor costs in the quarter, and also was able to minimize the increase in direct operating costs relating to Company Equipment as a percentage of revenue.

Q4 Direct Operating Expenses - Oilfield Services			
($ millions)	**2007**	2006	Change
	$	$	$
Company			
Wages and benefits	**32.5**	35.8	(3.3)
Fuel	**10.7**	8.9	1.8
Repairs and maintenance	**18.4**	22.1	(3.7)
Operating supplies	**9.2**	10.3	(1.1)
Other	**4.6**	7.0	(2.4)
	75.4	84.1	(8.7)
Contractors	**33.3**	35.3	(2.0)
Total	**108.7**	119.4	(10.7)

Selling and Administrative Expenses

Q4 Selling and Administrative Expenses - Oilfield Services			
($ millions)	**2007**	2006	Change
	$	$	$
Wages and benefits	**9.0**	10.5	(1.5)
Communications, utilities and general supplies	**6.3**	4.9	1.4
Profit share	**2.6**	1.6	1.0
Rent and other	**2.4**	2.7	(0.3)
Total	**20.3**	19.7	0.6

S&A expenses increased slightly by $0.6 million to $20.3 million, or 12.7 percent of revenue, for the three month period ended December 31, 2007 from $19.7 million, or 11.3 percent of revenue, in 2006. The increase was due to the new S&A expenses by virtue of the acquisitions of Brady and Pro North, increased S&A costs as a result of the internal growth experienced by certain business units in Production Services and Specialized Services and higher profit share, particularly in the business units associated with Specialized Services. The increase was offset by cost cutting measures undertaken in the Drilling Related Services businesses in an effort to streamline processes and increase productivity, which resulted in lower salaries and rent.

Operating Income

Operating income decreased by $4.4 million, or 12.1 percent, to $31.2 million, from $35.6 million in 2006. The decrease was mainly due to a decline in operating income in the Drilling Related Services group, which was partially offset by increased operating income in the Specialized Services and Production Services groups. The operating margin was 19.5 percent of revenue in 2007, down from 20.3 percent in 2006.

Capital Expenditures

For the three month period ended December 31, 2007, the segment invested $8.5 million in net capital expenditures, the majority of which was to replace older trucks and trailers. Gross expenditures were $9.3 million which were offset by $0.8 million of dispositions.

TRUCKING/LOGISTICS SEGMENT

Revenue

Q4 Revenue - Trucking/Logistics			
($ millions)	**2007**	2006	Change
	$	$	$
Company	**41.6**	43.4	(1.8)
Contractors	**71.8**	65.2	6.6
Other	**0.3**	1.3	(1.0)
Total	**113.7**	109.9	3.8

Revenue in the Trucking/Logistics segment was approximately 41.5 percent of pre-consolidated revenue, up from 38.0 percent in 2006. Revenue increased to $113.7 million, up 3.5 percent from $109.9 million in 2006. The increase was primarily a result of the strong demand for transportation services in western Canada partially offset by weaker demand in eastern Canada.

Direct Operating Expenses

Total direct operating costs increased to $84.8 million, up $3.4 million, or 4.2 percent, from $81.4 million in 2006. The majority of the increase was due to costs associated with the incremental revenue increases. Direct operating costs were 74.6 percent of revenue, up from 74.1 percent in 2006. The gross margin decreased to 25.4 percent from 25.9 percent in 2006. This decrease in gross margin was a result of more Contractors being utilized to meet the demand for customers, particularly in western Canada, which typically generate lower operating margins. Direct operating costs related to revenue earned by company owned equipment also increased as a percentage of revenue due to higher operating supplies in the Kleysen business.

Q4 Direct Operating Expenses - Trucking/Logistics			
($ millions)	**2007**	2006	Change
	$	$	$
Company			
Wages and benefits	**8.4**	8.8	(0.4)
Fuel	**3.4**	3.5	(0.1)
Repairs and maintenance	**6.0**	6.2	(0.2)
Operating supplies	**6.7**	4.6	2.1
Other	**6.0**	7.1	(1.1)
	30.5	30.2	0.3
Contractors	**54.3**	51.2	3.1
Total	**84.8**	81.4	3.4

Selling and Administrative Expenses

S&A expenses increased slightly by $0.2 million to $9.8 million, up from $9.6 million in 2006 mainly due to a combination of higher management fees in the quarter and lower profit share, lower rent and a lower foreign exchange loss. S&A expenses were 8.6 percent of revenue in 2007, down slightly from 8.7 percent in 2006.

Q4 Selling and Administrative Expenses - Trucking/Logistics			
($ millions)	**2007**	2006	Change
Wages and benefits	**5.8**	5.8	-
Communications, utilities and general supplies	**2.8**	2.0	0.8
Profit share	**0.9**	1.6	(0.7)
Foreign exchange	**(0.2)**	(0.5)	0.3
Rent and other	**0.5**	0.7	(0.2)
Total	**9.8**	9.6	0.2

Operating Income

Operating income increased by $0.2 million, or 1.1 percent, to $19.1 million from $18.9 million in 2006. As a percentage of revenue, operating margins decreased to 16.8 percent in 2007 from 17.2 percent in 2006, which reflects the lower gross margin attained in 2007.

Capital Expenditures

For the three month period ended December 31, 2007, the segment invested $3.3 million in net capital expenditures, which was used to replace trucks and trailers. Gross expenditures were $5.2 million which were offset by $1.9 million of dispositions.

CORPORATE

The corporate head office provides support to the Fund's business units including payroll services, information technology support, accounting services and substantially owns the Fund's land and buildings. In addition, the corporate head office is responsible for all regulatory and public reporting expenses. For the three month period ended December 31, 2007, the corporate head office incurred net administrative expenses of $2.2 million and revenue of $1.4 million, mainly related to interest income and other miscellaneous revenue, which resulted in a net operating loss of $0.8 million. For the same period in 2006, net corporate administrative expenses amounted to $1.6 million with revenue of $0.4 million for a net operating loss of $1.2 million. The increase in the revenue in 2007 was due to additional interest income earned on a higher cash balance. The increase in net expenses in 2007 was due to an additional $2.8 million loss on foreign exchange, offset by a $2.1 million reduction in profit share.

CAPITAL AND LIQUIDITY - QUARTERLY RESULTS

Sources and Uses of Cash

	Three Months ended December 31	
($ millions)	2007	2006
Cash, beginning of period	$ **111.6**	$ 66.5
Sources of cash:		
Funds provided from operations	**44.8**	50.9
Changes in non-cash working capital items	**7.3**	2.2
Proceeds of long-term debt	**2.0**	16.7
Proceeds from Trust Unit issuances	**0.2**	0.2
Cash distribution from equity investee	**3.1**	—
Other assets	**3.1**	—
Total sources	**60.5**	70.0
Uses of cash:		
Repayment of long-term debt	**0.9**	3.0
Distributions paid	**36.7**	36.8
Acquisitions	**9.5**	16.9
Net property, plant and equipment additions	**19.1**	30.2
Repurchase of Trust Units	**19.2**	—
Purchase of investments	**7.5**	—
Other assets	—	0.2
Total usage	**92.9**	87.1
Decrease in cash	**32.4**	17.1
Cash, end of period	$ **79.2**	$ 49.4

Cash Distributions

($ millions)		Three Months ended December 31 2007		2006
Cash distributions declared to unitholders	$	**36.6**	$	36.8
Cash flow from operations after non-cash working capital items		**52.1**		53.2
Net (loss) income		**(231.6)**		14.0
Excess of cash flow from operating activities over cash distributions declared		**15.5**		16.4
Deficiency of net (loss) income over cash distributions declared	$	**(268.2)**	$	(22.8)

The deficiency in net loss over cash distributions declared in 2007 was due to the impairment of goodwill and intangible assets totalling $275.0 million. Income before recording the impairment of goodwill and intangible assets was $0.1 million in excess of cash distributions declared. The deficiency in net income over cash distributions declared in 2006 was due to non-cash expenses in the quarter, which included future income taxes and unrealized loss on foreign exchange.

DISCLOSURE AND INTERNAL CONTROLS

Disclosure Controls

As of December 31, 2007, the Chief Executive Officer ("CEO"), Co-Chief Executive Officer ("Co-CEO") and the Chief Financial Officer ("CFO"), together with the Fund's management have evaluated the design and effectiveness of the Fund's disclosure controls and procedures. They concluded that the Fund's disclosure controls and procedures were adequate and effective in ensuring that material information relating to the Fund and its consolidated subsidiaries were accurately and properly disclosed.

Because of their inherent limitations, disclosure controls and procedures and internal controls over financial reporting may not prevent or detect misstatements, errors or fraud. Control systems, no matter how well conceived or operated, can provide only reasonable, not absolute assurance that the objectives of the control systems are met.

Internal Control over Financial Reporting

The CEO, Co-CEO and CFO are responsible for designing internal control procedures over financial reporting, causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with GAAP. The Fund has designed internal controls over financial reporting and has conducted an evaluation of those controls.

The Fund, due to its corporate structure, decentralized operations and strategy of growth through acquisition, does have weaknesses in its internal control over financial reporting. These weaknesses include:

- in certain business units there is a weakness in regards to segregation of duties. This weakness is addressed by management and senior executive overview. In addition, the Fund will, where practicable, make the necessary changes to improve the segregation of duties.

- the complex structure of the Fund and its decentralized operations raises a risk of misstatements due to the handling of complex and non-routine accounting and tax related transactions. Management and board reviews are utilized to mitigate these risks but there is no guarantee that a material misstatement would be prevented. The Fund will attempt to remediate this weakness by utilizing outside consultants with the appropriate expertise when the need arises or by developing in-house expertise or recruiting the necessary personnel with the expertise.

- the Fund's inability to design or effect a change to a design of an internal control over financial reporting for a company it acquires until after the acquisition has been completed. This is an inherent weakness that exists due to the Fund's strategy of growth through acquisition. Management is aware of this issue and will ensure that, to the extent appropriate and possible, a review of the design of the internal control over financing reporting for companies it intends to acquire occurs during its due diligence process or within a reasonable period of time after acquisition.

The Fund has not made any changes in its internal control of financial reporting that would materially affect, or is reasonably likely to materially affect, the Fund's internal control of financial reporting.

CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2007, the Fund adopted CICA Handbook Sections 1530, "Comprehensive Income", Section 3251 "Equity", Section 3855, "Financial Instruments - Recognition and Measurement", Section 3861, "Financial Instruments - Disclosure and Presentation" and Section 3865, "Hedges".

Under adoption of these new standards, the Fund designated its accounts receivable as loans and receivables, which are measured at amortized cost. The Fund's bank indebtedness, accounts payable and accrued liabilities, long-term debt and capital lease obligations are classified as other financial liabilities, which are measured at amortized cost. The Fund's debt issuance costs in 2006 have been netted against the related indebtedness and are amortized using the effective interest rate method. For the period ended December 31, 2007, $2.1 million of debt issuance costs were netted against the loan. As well, portfolio investments have been categorized as investments held for trading. Other than this change, the adoption of the standard had no material impact on the Fund's consolidated financial statements.

New CICA Handbook Sections have been issued which will require additional disclosure in the Fund's consolidated financial statements commencing January 1, 2008. Sections 1535 "Capital Disclosures" requires the disclosure of qualitative and quantitative information about the Fund's objectives, policies and processes for managing capital. Sections 3862 "Financial Instruments – Disclosures" and 3863

"Financial Instruments – Presentation" will replace Section 3861 to prescribe the requirements for presentation and disclosure of financial instruments. Handbook section 3031 "Inventories", which prescribes the recognitions, measurement, disclosure and presentation issues related to inventories will become effective January 1, 2008. Section 3865 specifies the circumstances under which hedge accounting is permissible and how hedge accounting may be performed. The Fund believes that the adoption of these standards will not have a material impact on the consolidated financial statements.

TRANSACTIONS WITH RELATED PARTIES

A summary of transactions with related parties is disclosed in Note 16 of the 2007 Annuals. All transactions were undertaken in the normal course of business under the same terms as transactions with unrelated entities.

BUSINESS RISKS

General

Certain activities of the Fund are affected by factors that are beyond its control or influence. The transportation business and activities of the Fund are directly affected by fluctuations in the general economy, including the amount of trade between Canada and the United States, and the value of the CDN. dollar as compared to the U.S. dollar. The Oilfield Services segment is directly affected by fluctuations in the levels of oil and gas drilling activity, oilsands development and production activity carried on by its customers, which in turn is dictated by numerous factors, including world energy prices and government policies.

Oil and Natural Gas Drilling Activity

A significant portion of the Fund's revenue and operating profit are related to oil and natural gas drilling activity in western Canada. As a service provider to the oil and gas industry the Fund is highly reliant on levels of capital expenditures made by oil and gas producers. Exploration and production companies base their capital expenditures on several factors, including but not limited to hydrocarbon prices, production levels and access to capital. Oil and gas producers and explorers tend to examine long-term fundamentals affecting the foregoing factors before they adjust their capital budgets to reflect those factors. In recent years, commodity prices, and therefore, the level of drilling, production and exploration activity have been volatile. Any prolonged, substantial reduction in commodity prices will likely affect the activity levels of the exploration and production companies and the demand for the Fund's services. A significant, prolonged decline in commodity prices could have a material adverse effect on the Fund's Oilfield Services segment, results of operations and financial condition.

Cost Escalation

Cost escalations due to rising costs, effect of inflation, the price of fuel, equipment and other input costs, insurance costs, interest rates, fluctuations in customers' business cycles and national and regional

economic conditions are factors over which the Fund has little or no control. Significant increases in fuel prices, equipment prices, other input prices, interest rates or insurance costs, to the extent not offset by increases in transportation rates or contractual surcharges, or disruptions in fuel supply, would reduce profitability and could adversely affect the Fund's ability to maintain distributions. The Fund cannot predict the impact of future economic conditions and there is no assurance that the operations of the Fund will continue to be profitable.

Fuel Prices

One of the Fund's largest operating expenses is fuel and as such higher fuel prices could materially affect the Fund's results. The Fund mitigates this exposure to rising costs through the implementation of various fuel surcharge programs which pass the majority of the cost increase to its customers. As a result, fuel expense as a percentage of revenue, net of fuel surcharge, only increased slightly from 7.3 percent in 2006 to 7.6 percent in 2007.

Credit Risk

Substantial portions of the Fund's accounts receivable are with customers involved in the oil and gas industry, whose revenues may be impacted by fluctuations in commodity prices. Although collection of these receivables could be influenced by economic factors affecting this industry, management considers the risk of a significant loss to be remote at this time. The Fund's top ten customers are all well-known, publicly-traded companies.

Competition

The various business segments in which the Fund participates are highly competitive. The Fund competes with several large companies in the transportation and energy services industry that have greater financial and other resources than the Fund. There can be no assurance that such competitors will not substantially increase the resources devoted to the development and marketing of services that compete with those of the Fund or that new competitors will not enter the various markets in which the Fund is active. In certain aspects of its business, the Fund has competitive advantages such as lower overhead costs and specialized regional strengths.

Access to Parts, Development of New Technology and Relationships with Key Suppliers

The ability of the Fund to compete and expand will be dependent on the Fund having access, at a reasonable cost, to equipment, parts and components, which are at least technologically equivalent to those utilized by competitors and to the development and acquisition of new and competitive technologies. Although the Fund has individual distribution agreements with various key suppliers, there can be no assurance that those sources of equipment, parts, components or relationships with key suppliers will be maintained. If these are not maintained, the Fund's ability to compete may be impaired. The Fund is able to access certain distributors and secure discounts on parts and components that would not be available if it were not for its relationship with certain key suppliers. Should the relationships with

key suppliers cease, the availability and cost of securing certain equipment and parts may be adversely affected.

Changes in Legislation

There can be no assurance that income tax laws, such as the status of mutual fund trusts and other government programs relating to the oil and gas industry, the energy services industry and the transportation industry, will not be changed in a manner which adversely affects unitholders (refer to Mutual Fund Trust Status).

There can be no assurance that the laws, regulations or rules governing the Fund's customers will not be changed in a manner which adversely affects the Fund's customers and, therefore, the Fund. During 2007 such occurred by virtue of the Alberta government's decision to change the royalty regime governing the oil and gas industry in Alberta. This decision could adversely affect drilling activity in Alberta in future years.

Environmental and applicable operating legislation may be changed in a manner which adversely affects unitholders.

Unitholder Limited Liability

The declaration of trust provides that no unitholder will be subject to any liability in connection with the Fund or its obligations and affairs and, in the event that a court determines unitholders are subject to any such liabilities, the liabilities will be enforceable only against the Fund, and will be satisfied only out of the Fund's assets. Pursuant to the declaration of trust, the Fund will indemnify and hold harmless each unitholder from any costs, damages, liabilities, expenses, charges and losses suffered by a unitholder resulting from or arising out of such unitholder not having such limited liability.

The declaration of trust provides that all written instruments signed by or on behalf of the Fund must contain a provision to the effect that obligations under those instruments will not be binding upon unitholders personally. Personal liability may however arise in respect of claims against the Fund that do not arise under contracts, including claims in tort, claims for taxes and possibly certain other statutory liabilities. The possibility of any personal liability of this nature arising is considered unlikely.

The *Income Trusts Liability Act* (Alberta) provides that a unitholder will not, as a beneficiary, be liable for any act, default, obligation or liability of the Trustee that arises after the legislation came into force. However, this legislation has not yet been ruled on by the courts.

The operations of the Fund will be conducted, upon the advice of counsel, in such a way and in such jurisdictions as to avoid as far as possible any material risk of liability to the unitholders for claims against the Fund, including by obtaining appropriate insurance, where available and to the extent commercially feasible.

Mutual Fund Trust Status

It is intended that the Fund qualify at all times as a mutual fund trust for the purposes of the Tax Act. The Fund may not, however, always be able to satisfy any future requirement for the maintenance of mutual fund trust status. Should the status of the Fund as a mutual fund trust be lost or successfully challenged by a relevant tax authority, certain adverse consequences may arise for the Fund and unitholders. Some of the significant consequences of losing mutual fund trust status are as follows:

- Where at the end of any month a registered retirement savings plan ("RRSP"), registered retirement income fund ("RRIF"), registered education savings plan ("RESP") or deferred profit sharing plan (collectively, "Exempt Plans") holds units that are not qualified investments, the Exempt Plan must, in respect of that month, pay a tax under Part XI.1 of the Tax Act equal to 1.0 percent of the fair market value of the units at the time such units were acquired by the Exempt Plan. An RRSP or RRIF holding units that are not qualified investments would become taxable on income attributable to the units while they are not qualified investments (including the entire amount of any capital gain arising on a disposition of the non-qualified investment). RESPs which hold units that are not qualified investments may have their registration revoked by the CRA;

- the Fund would be required to pay a tax under Part XII.2 of the Tax Act. The payment of Part XII.2 tax by the Fund may have adverse income tax consequences for certain unitholders, including non-resident persons and residents of Canada who are exempt from Part I tax;

- the Fund would cease to be eligible for the capital gains refund mechanism available under Canadian tax laws; and

- units would become taxable Canadian property. As a result, non-resident unitholders would be subject to Canadian income tax on any gains realized on a disposition of units held by them, subject to relief under an applicable tax convention. In addition, the Fund may take certain measures in the future to the extent the Fund believes such measures are necessary to ensure the Fund maintains its status as a mutual fund trust. These measures could be adverse to certain holders of units.

On June 22, 2007 the Government of Canada enacted a new tax on distributions from SIFT entities. This enactment has triggered the recognition of future income tax assets and liabilities expected to reverse after January 1, 2011. The effect of the income tax increase on the SIFT entity's future income tax balances in the Fund has been reflected as a future income tax expense in 2007.

Non-resident Ownership of Units

In order for the Fund to maintain its status as a mutual fund trust under the Tax Act, the Fund must not be established or maintained primarily for the benefit of non-residents of Canada ("non-residents") within the meaning of the Tax Act. The declaration of trust provides that if at any time the Fund or MGI becomes aware that the activities of the Fund and/or ownership of Trust Units by non-residents may threaten the status of the Fund under the Tax Act as a "unit trust" or a "mutual fund trust", the Fund, by or through MGI on the Fund's behalf, is authorized to take such action as may be necessary in the opinion of MGI to maintain the status of the Fund as a "unit trust" or a "mutual fund trust". See "declaration of trust and Description of Units – Limitation on Non-Resident Ownership" in the Arrangement Circular.

Income Tax Matters

Generally, income trusts (including the Fund) involve significant amounts of inter-company debt, royalties or similar instruments, generating substantial interest expense or other deductions which serve to reduce taxable income and income tax payable. Although the Fund is of the view that all expenses to be claimed by the Fund, MHT, MCLP and MTI will be reasonable and deductible and that the cost amount and capital cost allowance claims of such entities' depreciable properties will have been correctly determined, there can be no assurance that the taxation authorities will not seek to challenge the amount of interest expense and other deductions. If such a challenge were to succeed it could materially adversely affect the amount of distributions available to the Fund. The Fund and MGI believe that the interest expense inherent in the structure of the Fund is supportable and reasonable in light of the terms of the MHT Notes and certain debt issued by MTI to MCLP.

Employees and Labour Relations

The success of the Fund is dependent upon the Fund's key personnel. Any loss of the services of such persons could have a material adverse effect on the business and operations of the Fund. The ability of the Fund to expand its services will be dependent upon the Fund's ability to attract additional qualified employees which is constrained in times of strong industry activity. The failure to attract and retain a sufficient number of qualified drivers and owner-operators could also have a material adverse affect on the profitability of the Fund.

The largest components of the Fund's overall expenses are salary, wages, benefits and costs of Contractors. Any significant increase in these expenses could impact the financial results of the Fund. In addition, the Fund is at risk if there are any labour disruptions. Some of the Fund's business units are subject to collective agreements with their employees. Any work stoppages or unbudgeted or unexpected increases in compensation could have a material adverse affect on the Fund's profitability and reduce cash available for distribution to unitholders.

The Fund believes that it has fostered a positive working relationship with its employees and Contractors. By creating a positive working environment, built on the tenets of quality, and by providing incentive-based profit share the Fund believes its ability to attract and retain drivers is higher than the rest of the industry.

Environmental Liability Risks

Certain of the Fund's subsidiaries routinely deal with natural gas, oil and other petroleum products. The Fund has programs to address compliance with current environmental standards and monitors its practices concerning the handling of environmentally hazardous materials. However, there can be no assurance that the Fund's procedures will prevent environmental damage occurring from spills of materials handled by the Fund or that such damage has not already occurred.

Canadian laws generally impose potential liability to the present or former owners or occupants of properties on which contamination has occurred. Although the Fund is not aware of any contamination which, if remediation or clean up were required, would have a material adverse effect on the Fund, there can be no assurance that the Fund will not be required, at some future date, to incur significant costs to

comply with environmental laws, or that its operations, business, assets or cash flow will not be materially adversely affected by current or future environmental laws.

Potential Operating Risks and Insurance

The Fund has an insurance and risk management program in place to protect its assets, operations and employees. The Fund also has programs in place to address compliance with current safety and regulatory standards. The Fund has a health and safety coordinator in each operating subsidiary responsible for maintaining and developing policies and monitoring operations vis-à-vis those policies. The health and safety coordinators are required to report incidents directly to the Vice President, Safety and Loss Prevention of MGI, who reports directly to the Chief Executive Officer of MGI. However, the Fund's Oilfield Services operations are subject to risks inherent in the oil and gas industry, such as equipment defects, malfunction, failures and natural disasters. These risks could expose the Fund to substantial liability for personal injury, loss of life, business interruption, property damage or destruction, pollution and other environmental damages. In addition, the Fund's transportation operations are subject to risks normally inherent in the transportation industry, including potential liability which could result from, among other things, personal injury or property damage arising from motor vehicle accidents.

Although the Fund has obtained insurance against certain of the risks to which it is exposed, such insurance is subject to coverage limits and no assurance can be given that such insurance will be adequate to cover the Fund's liabilities or will be generally available in the future or, if available, that premiums will be commercially justifiable. If the Fund were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, or if the Fund were to incur such liability at a time when it is not able to obtain liability insurance, its business, results of operations and financial condition could be materially adversely affected.

Capital Expenditures

The timing and amount of capital expenditures by the Fund will directly affect the amount of cash available for distribution to unitholders.

Reliance on Major Customers

The top 10 customers of the Fund accounted for approximately 31.7 percent of the Fund's revenue for the year ended December 31, 2007 and the largest customer accounted for approximately 6.8 percent of such revenue. There can be no assurance that the Fund's current customers will continue their relationships with the Fund. The loss of one or more major customers, or any significant decrease in transportation services or oilfield services provided to a customer, prices paid, or any other changes to the terms of service with customers, could have a material adverse effect on the profitability of the Fund, and as a result, the amount of cash available for distribution to unitholders.

Regulation

Notwithstanding that the transportation industry is largely deregulated in terms of entry into the industry, each carrier must obtain a license from, or register with, provincial regulatory authorities in order to carry

goods extra-provincially or to transport goods within any province. Licensing is also required from regulatory authorities in the United States for the transportation of goods between Canada and the United States. Changes in regulations applicable to the Fund could increase operating costs and have a material adverse effect on the Fund's operations and financial condition.

The right to continue to hold applicable licenses and permits is generally subject to maintaining satisfactory compliance with regulatory and safety guidelines, policies and regulations. Although the Fund is committed to compliance and safety through its operational excellence initiatives, there is no assurance that the Fund will be in full compliance at all times with such policies, guidelines and regulations. Consequently, at some future time, the Fund could be required to incur significant costs to maintain or improve its compliance record.

Access to Additional Financing

The Fund may find it necessary in the future to obtain additional debt or equity financing to support ongoing operations, to undertake capital expenditures or to undertake acquisitions or other business combination transactions. There can be no assurance that additional financing will be available to the Fund when needed or on terms acceptable to the Fund which could limit the Fund's growth and may have a material adverse effect upon the Fund.

Interest Rates

At December 31, 2007 most of the Fund's debt was financed at fixed rates for 10 to 12 years which protects it from interest rate increases. However, the Fund's operating facility with its lender has a floating interest rate, therefore, to the extent the Fund utilizes this credit facility it has a risk of interest rates rising.

Foreign Exchange

The Fund faces some foreign exchange risk if the Canadian dollar declines in value against the U.S. dollar, as $235.0 million of its debt is repayable in U.S. funds. This risk is partially offset by the fact that the Fund generates surplus U.S. funds in its operations.

Weather and Seasonality

Harsh weather conditions can impede the movement of goods and increase the operating costs for the materials that can be transported, which can have a material adverse effect on the Fund's cash flow and, as a result, cash available for distribution to unitholders.

In general, the level of activity in the Canadian oilfield service industry is influenced by seasonal weather patterns. Wet weather and the spring thaw may make the ground unstable. Consequently, municipalities and provincial transportation departments enforce road bans that restrict the movement of rigs and other heavy equipment, thereby reducing activity levels. Additionally, certain oil and gas producing areas are only accessible in the winter months because the ground surrounding the drilling sites in these areas consists of swampy terrain. Seasonal factors and unexpected weather patterns may lead to declines in

the activity levels of exploration and production companies and corresponding declines in the demand for the goods and services of the Fund. The Fund mitigates some of this risk by charging standby fees or by positioning equipment in strategic locations in order to take advantage of good weather conditions when they occur.

Failure to Realize Anticipated Benefits of Acquisitions and Dispositions

The Fund makes acquisitions and dispositions of businesses and assets in the ordinary course of business. Achieving the benefits of acquisitions depends in part on successfully consolidating functions and integrating operations and procedures in a timely and efficient manner. Such integration may require substantial management effort, time and resources and may divert management's focus from other strategic opportunities and operational matters. Management continually assesses the value and contribution of services provided and assets required to provide such services. In this regard, non-core assets will be periodically disposed of so that the Fund can focus its efforts and resources more efficiently. Depending on the state of the market such non-core assets, if disposed of, could be expected to realize less than their carrying value on the consolidated financial statements of the Fund.

CRITICAL ACCOUNTING ESTIMATES

The Fund has to make several critical accounting estimates as detailed below:

(1) Depreciation

The method of calculating depreciation expense, as noted in Note 1(d) of the 2007 Annuals, is an estimate. The Fund considers its method and rates of depreciation reasonably reflect the annual decline in the value of property, plant and equipment. These methods and rates used are validated by the fact that net gains or losses on sale of property, plant and equipment over the last 10 years have been minimal, which indicates that the net book value of assets approximates fair market value over an extended period of time.

(2) Goodwill and Intangible Assets

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired less liabilities assumed, based on their fair values. As at December 31, 2007, the Fund recorded an impairment of goodwill of $250.0 million. The impairment related to the goodwill acquired with the Producers acquisition, whose operating business units are Formula Powell, Swanberg and Withers which are in the Oilfield Services segment, where the carrying value of goodwill exceeded its fair value. The Fund's Trucking/Logistics segment had no impairment as the fair values of the segment exceeded their carrying values (See Note 5 of the 2007 Annuals).

Intangible assets are mainly comprised of non-competition agreements and customer relationships and are amortized over their estimated life. As at December 31, 2007, the Fund recorded an impairment of intangible assets totalling $25.0 million. The impairment related to the intangible assets acquired with the Producers acquisition whose operating business units are Formula Powell, Swanberg and Withers, which are in the Oilfield Services segment, where the carrying value of intangible assets exceeded its fair value. There were no indications of

impairment in the Fund's other business units as the fair values of those business units exceeded their carrying values (See Note 6 of the 2007 Annuals).

(3) **Bad Debt Expense**

The Fund routinely reviews accounts receivables and sets up a reserve for bad debts on a customer-by-customer basis. This is an estimate as some of the reserved accounts may subsequently be collected whereas some accounts currently deemed collectible, may become uncollectible. The Fund considers its reserve at the end of December 31, 2007 to be reasonable.

(4) **Unit-based Compensation (see Notes 1(i), 11 and 12 of the 2007 Annuals.)**

The Fund applied the fair value method of all stock-based or unit-based payments and awards as set out in GAAP.

Financial Instruments

See Note 17 of the 2007 Annuals. The Fund does not have any other financial instruments other than those disclosed in Notes 8, 13 and 16 of the 2007 Annuals.

GLOSSARY OF TERMS AND RECONCILIATION OF NON-GAAP TERMS

The 2007 Annuals referred to are prepared according to GAAP. References to operating income, funds from operations, discretionary funds from operations, distributable cash, and return of invested capital are not measures recognized by GAAP and do not have standardized meanings prescribed by GAAP. Investors should be cautioned that these indicators should not replace net earnings as an indicator of GAAP performance.

Discretionary Funds from Operations

Discretionary funds from operations are funds from operations, less property, plant and equipment additions, plus proceeds on the sale of property, plant and equipment.

Calculation of Discretionary Funds from Operations

($ millions) *Years ended December 31*	2007	2006
	$	$
Funds from operations	193.8	195.3
Add/(less):		
Property, plant and equipment additions	(96.6)	(102.7)
Proceeds on sale of property, plant and equipment	16.4	17.4
Discretionary funds from operations	113.6	110.0

Discretionary Funds from Operations per Unit

Discretionary funds from operations per unit is calculated by dividing discretionary funds from operations by the weighted average number of units outstanding during the year.

($ millions, except per unit and unit amounts)) *Years ended December 31*	2007	2006
	$	$
Discretionary funds from operations	113.6	110.0
Weighted average number of units outstanding	81,596,000	68,866,000
Discretionary funds from operations per unit	$1.39	$1.60

Funds from Operations

Funds from operations is net income adjusted for changes in non-cash working capital items.

Reconciliation of Net Income and Loss to Funds from Operations

($ millions) *Years ended December 31*	**2007**	**2006**
	$	$
Net (loss) income	**(118.7)**	128.1
Items not involving cash:		
Depreciation of property, plant and equipment	**57.7**	41.8
Amortization of intangible assets	**16.8**	10.9
Unit-based compensation	**3.4**	2.6
Unrealized (gain) loss on foreign exchange	**(26.7)**	7.5
Loss (gain) on sale of property, plant and equipment and investments	**0.7**	(1.5)
Future income taxes	**(10.8)**	6.9
Earnings from equity investments	**(3.6)**	(1.0)
Impairment of goodwill and intangible assets	**275.0**	—
Funds from operations	**193.8**	**195.3**

Funds from Operations per Unit

Funds from operations per unit is calculated by dividing funds from operations by the weighted average number of units outstanding during the year.

($ millions except per unit and unit amounts) *Years ended December 31*	**2007**	**2006**
	$	$
Funds from operations	193.8	195.3
Weighted average number of units outstanding	81,596,000	68,886,000
Funds from operations per unit	$2.38	$2.84

Growth Capital Expenditures

Growth capital expenditures are capital expenditures required to expand the business. Over an economic cycle the Fund expects that the amount of its capital expenditures needed to sustain the business will approximate its depreciation. Capital expenditures required to expand the business are considered to be growth capital expenditures. The Fund does not consider its capital expenditures for long-term assets such as land and buildings to be growth capital expenditures since they are not required to maintain or grow the business.

Operating Income

Operating income is defined as net income before interest, unrealized loss on foreign exchange, income taxes, depreciation, amortization, earnings from equity investments, gains on the sale of property, plant and equipment and gains on the sale of investments, and impairment of goodwill and intangible assets. Operating income is a useful supplemental measure as it provides an indication of the results generated by the Fund's principal business activities prior to depreciation, financing, or taxation in various jurisdictions. The Fund's method of calculating operating income may differ from other companies and therefore may not be comparable.

Reconciliation of Net Income and Loss to Operating Income

($ millions) *Years ended December 31*	2007	2006
Net (loss) income	$ **(118.7)**	$ 128.1
Add:		
Impairment of goodwill and intangible assets	**275.0**	—
Earnings from equity investments	**(3.6)**	(1.0)
Provision for income taxes (recovery)	**(13.2)**	2.6
Loss (gain) on sale of property, plant and equipment and investments	**0.7**	(1.4)
Unrealized (gain) loss on foreign exchange	**(26.7)**	7.5
Other interest	**0.2**	0.2
Interest on long-term debt	**20.9**	13.5
Depreciation on property, plant and equipment	**57.7**	41.7
Amortization on intangible assets	**16.8**	10.9
Operating income	$ **209.1**	$ 202.1

Income Before Impairment of Goodwill and Intangible Assets

Income before impairment of goodwill and intangible assets is net income before recognizing the impairment of goodwill and intangible assets and the tax effect of the impairment.

Reconciliation of Net Income and Loss to Income Before Impairment of Goodwill and Intangible Assets

($ millions) *Years ended December 31*	2007	2006
	$	$
Net (loss) income	**(118.7)**	128.1
Impairment of goodwill and intangible assets	**275.0**	—
Future income tax effect on impairment of intangible assets	**(6.7)**	—
Income before impairment of goodwill and intangible assets	**149.6**	**128.1**

Earnings per Unit before Impairment of Goodwill and Intangible Assets

Earnings per unit before the impairment of goodwill and intangible assets is calculated by dividing income before the impairment of goodwill and intangible assets by the weighted average number of units outstanding during the year.

($ millions except per unit and unit amounts) *Years ended December 31*	2007	2006
	$	$
Income before impairment of goodwill and intangible assets	149.6	128.1
Weighted average number of units outstanding	81,596,000	68,886,000
Earnings per unit before impairment of goodwill and intangible assets	$1.83	$1.86

Restated Amounts

(a) Restated amounts or percentages for 2003 ("restated") reflect the retroactive adoption of the new Canadian accounting standards that apply to the fair value method of all stock-based payments and awards.

(b) Certain amounts for the years 2004 and 2003 are restated to account for the effect of converting each share to a total of three Trust Units or B Units.

OUTLOOK

We entered 2007 on a cautionary note due to our belief that drilling activity in western Canada would be down sharply as compared to the record levels achieved in 2006. Industry statistics have verified these concerns with drilling levels declining by 20.1 percent to 18,367 wells drilling from 22,979 in 2006. We also indicated that the Fund could support the cash distribution of $1.80 per unit for 2007 because of the strength of the Fund's diversified business model and strong balance sheet. And we did.

As we turn to the future we must be cognizant of the significant challenges facing the overall economy, the credit markets and the energy sector, particularly in the Province of Alberta where a new set of resource royalties are scheduled to be implemented. The exact impact of these challenges are difficult to measure but the fundamentals that have always supported Mullen remain intact. We enter 2008 with a leaner business, a focused management team, a strong diversified business model and a very nice cash position, which we intend to utilize in 2008. We have several business units that will require growth capital due to new business opportunities and we believe there are several acquisition targets that we will pursue in the coming year. Most encouraging is the fact that commodity prices remain high, including natural gas which could very well translate into stronger drilling in western Canada later in 2008.

The longer-term outlook remains quite positive and on balance we believe that the Fund can maintain the current annual distribution of $1.80 per unit throughout 2008. To grow the Fund in the long-term, however, the Fund will be required to consider converting from the current Income Fund structure to a more traditional corporate structure. The Government of Canada's announcement dated October 31, 2006 relating to the taxation of income trusts will require a conversion with the only question being one of timing. The Fund will continue to monitor this situation very carefully.

February 27, 2008

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Mullen Group
INCOME FUND

2007 CONSOLIDATED FINANCIAL STATEMENTS

AND

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT'S REPORT TO THE UNITHOLDERS

The accompanying consolidated financial statements of Mullen Group Income Fund (the "Fund") have been approved by the Board of Directors and have been prepared in accordance with Canadian generally accepted accounting principles. The financial information contained elsewhere in this report has been reviewed to ensure consistency with these consolidated financial statements. In preparing the report, the Fund undertakes steps to ensure the information presented is accurate and conforms to applicable laws and standards, including:

- The Board of Directors and management have established corporate governance practices that are consistent with guidelines set out in the report issued by The Toronto Stock Exchange Committee on Corporate Governance in Canada.
- Management maintains accounting control systems designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized, financial records are accurately maintained and statements are generated in a timely manner.
- The Board of Directors oversees the management of the business and the affairs for the Fund including ensuring management fulfills its responsibility for financial reporting, and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility principally through its Audit Committee.
- The Audit Committee of the Board of Directors, comprised of four members considered to be "outside and unrelated" directors, has reviewed the consolidated financial statements with management and the external auditors.
- Management, with the participation of the Chief Executive Officer, Co-Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Fund's disclosure controls and procedures (as defined in the rules of the Canadian Securities Administrators) and has concluded that such disclosure controls and procedures are effective.
- Management has evaluated the design and effectiveness of internal controls over financial reporting and has concluded the design is effective except for issues with the complexity of accounting and income tax issues and with control weaknesses related to segregation of duties.
- An independent firm of chartered accountants, appointed as external auditors by the unitholders, has audited the consolidated financial statements and its report is included below.

Murray K. Mullen
Chairman, Chief Executive Officer and Director

David E. Olson
Vice-President, Finance and
Chief Financial Officer

February 27, 2008

KPMG LLP
Chartered Accountants
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Calgary AB T2P 4B9

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AUDITORS' REPORT TO THE UNITHOLDERS

We have audited the consolidated balance sheets of Mullen Group Income Fund as at December 31, 2007 and 2006 and the consolidated statements of income, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Calgary, Canada

February 27, 2008

CONSOLIDATED BALANCE SHEETS

December 31, 2007 and 2006 *($ thousands)*	2007	2006
Assets		
Current assets:		
Cash and cash equivalents	$ **79,155**	$ 49,398
Accounts receivable	**185,475**	209,545
Income taxes recoverable	**1,488**	6,834
Prepaid expenses	**27,715**	27,675
	293,833	293,452
Investments (note 3)	**9,884**	1,825
Property, plant and equipment (note 4)	**586,823**	558,522
Goodwill (note 5)	**794,448**	1,041,827
Intangible assets (note 6)	**82,674**	116,284
Other assets (note 7)	**2,828**	9,335
	$ **1,770,490**	$ 2,021,245
Liabilities and Unitholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ **100,480**	$ 107,423
Distributions payable (note 8)	**12,112**	12,291
Current portion of long-term debt (note 9)	**3,817**	21,734
	116,409	141,448
Long-term debt (note 9)	**398,592**	325,002
Future income taxes (note 10)	**123,357**	130,729
Unitholders' equity:		
Unitholders' capital (note 11)	**1,185,340**	1,201,677
Trust Units repurchased, pending cancellation (note 11)	**(5,880)**	—
Contributed surplus (note 12)	**7,273**	7,839
(Deficit) retained earnings	**(54,601)**	214,550
	1,132,132	1,424,066
Commitments and contingencies (note 14)		
	$ **1,770,490**	$ 2,021,245

See accompanying notes to the consolidated financial statements.

Approved by the Board of Directors

Murray K. Mullen, Director

Dennis J. Hoffman, Director

CONSOLIDATED STATEMENTS OF INCOME AND (DEFICIT) RETAINED EARNINGS

Years ended December 31, 2007 and 2006 *($ thousands, except per unit amounts)*	2007	2006
Revenue	$ 1,119,499	$ 1,003,287
Expenses:		
Direct operating	764,992	682,132
Selling and administrative	145,377	119,090
	209,130	202,065
Depreciation on property, plant and equipment	57,684	41,730
Amortization on intangible assets	16,761	10,905
Interest on long-term debt	20,970	13,410
Other interest	194	202
Unrealized (gain) loss on foreign exchange	(26,641)	7,500
Loss (gain) on sale of property, plant and equipment	725	(1,256)
Gain on sale of investments	(30)	(115)
Impairment of goodwill and intangible assets (notes 5 and 6)	275,000	—
(Loss) income before income taxes and earnings from equity investments	(135,533)	129,689
Provision for income taxes (note 10):		
Current (recovery)	(2,390)	(4,311)
Future (recovery)	(10,850)	6,866
	(13,240)	2,555
(Loss) income before earnings from equity investments	(122,293)	127,134
Earnings from equity investments	3,598	998
Net (loss) income	$ (118,695)	$ 128,132
Retained earnings, beginning of year	$ 214,550	$ 228,551
Split off of Horizon North Logistics Inc.	—	(18,096)
Distributions declared to unitholders	(146,804)	(124,037)
Repurchase of Trust Units (note 11)	(3,652)	—
(Deficit) retained earnings, end of year	$ (54,601)	$ 214,550
Earnings per unit (note 13):		
Basic	$ (1.45)	$ 1.86
Diluted	$ (1.45)	$ 1.86
Weighted average number of units outstanding:		
Basic	81,596	68,886
Diluted	81,596	68,886

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2007 and 2006
(in thousands of dollars)

		2007		2006
Cash provided by (used in):				
Operations:				
Net (loss) income	$	**(118,695)**	$	128,132
Items not involving cash:				
Depreciation on property, plant and equipment		**57,684**		41,730
Amortization on intangible assets		**16,761**		10,905
Unit-based compensation		**3,427**		2,581
Unrealized (gain) loss on foreign exchange		**(26,641)**		7,500
Loss (gain) on sale of property, plant and equipment		**725**		(1,256)
Gain on sale of investments		**(30)**		(115)
Future income taxes (recovery)		**(10,850)**		6,866
Earnings from equity investments		**(3,598)**		(998)
Impairment of goodwill and intangible assets		**275,000**		—
		193,783		195,345
Changes in non-cash working capital items		**18,611**		(3,168)
		212,394		192,177
Financing activities:				
Change in bank indebtedness		**—**		(28,018)
Repayment of long-term debt		**(23,664)**		(162,393)
Proceeds of long-term debt		**107,914**		334,100
Net proceeds from Trust Unit issuances		**1,247**		97,036
Repurchase of Trust Units		**(28,656)**		—
Distributions paid		**(146,983)**		(118,124)
		(90,142)		122,601
Investing activities:				
Acquisitions (note 2)		**(11,915)**		(182,139)
Cash distribution from equity investment		**3,123**		—
Property, plant and equipment additions		**(96,653)**		(102,705)
Proceeds on sale of property, plant and equipment		**16,450**		17,408
Purchase of investments		**(7,553)**		—
Proceeds on sale of investments		**46**		141
Other assets		**4,007**		1,915
		(92,495)		(265,380)
Change in cash		**29,757**		49,398
Cash, beginning of year		**49,398**		—
Cash, end of year	$	**79,155**	$	49,398
Supplemental cash flow information:				
Interest paid	$	**21,808**	$	10,798
Income taxes paid (received)	$	**(7,792)**	$	11,537

See accompanying notes to the consolidated financial statements

1. Significant Accounting Policies

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from these estimates.

(a) Basis of presentation

Mullen Group Income Fund ("Mullen" and/or the "Fund") is an unincorporated investment trust. The business of the Fund is held in indirectly owned subsidiaries and limited partnerships. The business of Mullen is a diversified transportation and oilfield services organization with its activities divided into two distinct business segments; Oilfield Services and Trucking/Logistics.

The Fund is an unincorporated open-ended investment trust governed by the laws of the Province of Alberta and created pursuant to a declaration of trust dated as of June 3, 2005. Pursuant to the provisions of section 193 of the Business Corporations Act (Alberta), Mullen Transportation Inc. ("MTI" and/or the "Company"), Mullen Acquisition Corp., certain subsidiaries of MTI and certain other corporations were amalgamated, effective as of July 1, 2005 to form MT Investments Inc. ("MT"). MT is wholly-owned by Mullen Co. Limited Partnership ("MCLP"). MCLP is approximately 75 percent owned by Mullen Holding Trust ("MHT") and the balance of MCLP is owned by other third parties. MHT is wholly-owned by the Fund. CIBC Mellon Trust Company is the Trustee under the Fund. The beneficiaries of the Fund are the holders of the trust units ("Trust Units") issued by the Fund ("unitholders"). The accompanying audited consolidated financial statements for the Fund have been prepared in accordance with GAAP for consolidated financial statements. Certain comparative figures have been reclassified to conform with the current consolidated financial statement presentation.

(b) Changes in Accounting Policies

On January 1, 2007, the Fund adopted CICA Handbook Sections 1530, "Comprehensive Income", Section 3251 "Equity", Section 3855, "Financial Instruments - Recognition and Measurement", Section 3861, "Financial Instruments - Disclosure and Presentation" and Section 3865, "Hedges".

Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with GAAP.

Section 3861 establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them. Under the new standards, policies followed for periods prior to the effective date generally are not reversed and therefore, the comparative figures have not been restated. Section 3865 describes when and how hedge accounting can be applied as well as the disclosure requirements. Hedge accounting enables the recording of gains, losses, revenues and expenses from derivative financial instruments in the same period as for those related to the hedged item.

1. Significant Accounting Policies, (continued)

Section 3855 prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet and at what amount, requiring fair value or cost-based measures under different circumstances. Under Section 3855, financial instruments must be classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value except for loans and receivables, held to maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net earnings; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is de-recognized or impaired at which time the amounts would be recorded in net earnings.

Under adoption of these new standards, the Fund designated its accounts receivable as loans and receivables, which are measured at amortized cost. The Fund's bank indebtedness, accounts payable and accrued liabilities, long-term debt and capital lease obligations are classified as other financial liabilities, which are measured at amortized cost. The Fund's debt issuance costs have been netted against the related indebtedness and are amortized using the effective interest rate method. For the year ended December 31, 2007, $2.1 million of debt issuance costs were netted against the loan. As well, portfolio investments have been categorized as investments held for trading. Other than these changes the adoption of the standard had no material impact on the Fund's consolidated financial statements.

Any derivative instruments, including embedded derivatives, are to be recorded in the statement of income at fair value unless exempted from derivative treatment as a normal purchase and sale. All changes in their fair value are recorded in earnings unless cash flow hedge accounting is used, in which case changes in fair value are recorded in other comprehensive income. The Fund has elected to apply this accounting treatment for all embedded derivatives in host contracts entered into on or after January 1, 2003. The Fund has determined it currently has no derivative or embedded derivative instruments and as such is not impacted by the change in accounting policy.

New CICA Handbook Sections have been issued which will require additional disclosure in the Fund's consolidated financial statements commencing January 1, 2008. Sections 1535 “Capital Disclosures” requires the disclosure of qualitative and quantitative information about the Fund's objectives, policies and processes for managing capital. Sections 3862 “Financial Instruments – Disclosures” and 3863 “Financial Instruments – Presentation” will replace Section 3861 to prescribe the requirements for presentation and disclosure of financial instruments. Handbook section 3031 “Inventories”, which prescribes the recognitions, measurement, disclosure and presentation issues related to inventories will become effective January 1, 2008. Section 3865 specifies the circumstances under which hedge accounting is permissible and how hedge accounting may be performed. The Fund believes that the adoption of these standards will not have a material impact on the consolidated financial statements.

(c) Investments

Investments in affiliates over which the Fund has significant influence are accounted for using the equity method. Investments in which the Fund has no significant influence are carried at the fair value. If management determines there is a permanent decline in value in underlying assets and no expectation of future earnings, these investments are written down to net realizable value.

1. Significant Accounting Policies, (continued)

(d) Property, plant and equipment and depreciation

Property, plant and equipment are recorded at cost. Depreciation on additions and disposals is prorated from the month of purchase or disposal. Depreciation is provided annually over the estimated useful lives of the assets on the declining balance basis at the following rates:

Assets	Rate
Buildings	2.5 - 8%
Trucks and trailers	10 - 20%
Equipment, furniture and fixtures	20%
Automobiles, computer equipment and computer software	30 - 50%
Satellite communications equipment	20%

Drilling rigs are depreciated by the unit-of-production method based on 1,500 operating days with a 20 percent residual value.

(e) Intangible assets and amortization

Intangible assets are mainly comprised of non-competition agreements and customer relationships and are amortized on a straight-line basis over five to ten years.

Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of the asset is not recoverable and exceeds its estimated fair value.

(f) Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired less liabilities assumed, based on their fair values.

Goodwill is not amortized, but is tested for permanent impairment annually in the fourth quarter, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting segment is compared with its fair value. When the fair value of a reporting segment exceeds its carrying amount, goodwill of the reporting segment is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting segment exceeds its fair value, in which case the implied fair value of the reporting segment's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination described in the preceding paragraph, using the fair value of the reporting segment as if it was the purchase price. When the carrying amount of a reporting segment's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess.

1. Significant Accounting Policies, (continued)

(g) Revenue recognition

The Fund's services are provided based upon orders and contracts with the customer that include fixed or determinable prices based upon daily, hourly or job rates. Contract terms do not include provision for post-service obligations. Revenue is recognized when services are rendered and when collectability is reasonably assured.

(h) Income taxes

The Fund and its subsidiaries follow the liability method of accounting for future income taxes. Under the liability method, future income tax assets and liabilities are determined based on “temporary differences” (differences between the accounting basis and the tax basis of the assets and liabilities), and are measured using the currently enacted, or substantively enacted, tax rates and laws expected to apply when these differences reverse. The effect of a change in income tax rates on future tax liabilities and assets is recognized in income in the period in which the change occurs.

On June 22, 2007, the Government of Canada enacted a new tax on distributions from specified investment flow-through ("SIFT") entities. This enactment has triggered the recognition of future income tax assets and liabilities expected to reverse after January 1, 2011. The effect of the income tax increase on the SIFT entity's future income tax balances in the Fund has been reflected as a future income tax expense in 2007.

(i) Unit-based compensation plan

The Fund has a unit-based compensation plan, which is described in note 11. The Fund utilizes the fair value method to account for options. Under the fair value method, the fair value of options is calculated at the date of grant and that value is recorded as compensation expense over the vesting periods of those grants, with a corresponding increase to contributed surplus. When options are exercised, the proceeds received by the Fund, along with the amount in contributed surplus, will be credited to unitholders' capital.

(j) Per unit amounts

Basic per unit amounts are calculated using the weighted average number of units outstanding during the year. Diluted per unit amounts are calculated based on the treasury stock method which assumes that any proceeds obtained on the exercise of options would be used to purchase Trust Units at the average market prices during the period. The weighted average number of units outstanding is then adjusted by the net change.

(k) Cash and cash equivalents

Cash and cash equivalents are restricted to cash and highly liquid investments having an initial term of three months or less and are presented at cost which approximates fair value.

2. Acquisitions and Dispositions

(a) *2007 Acquisitions*

On April 30, 2007, the Fund acquired all the outstanding shares of E.K. Inc. ("EK"), a specialized transportation carrier for $2.4 million. Based out of Aldersyde, Alberta, EK mainly specializes in transporting natural gas compressor units to the United States. EK's results from operations are included in the Trucking/Logistics segment.

(Tabular amounts in thousands, except per unit and unit amounts)

2. Acquisitions and Dispositions, (continued)

On October 31, 2007, the Fund acquired all the outstanding shares of Pro North Well Management Ltd. and its wholly-owned subsidiary Pro North Oilfield Services Ltd. (collectively "Pro North") for $9.5 million. Pro North provides oilfield related fluid hauling services and is based out of Fort Nelson, British Columbia. Pro North's results from operations are included in the Oilfield Services segment.

The acquisitions in 2007 have been accounted for by the purchase method, and results of operations have been included in these consolidated financial statements from the date of acquisition. Details of the acquisitions are as follows:

2007		Total
Assets:		
Non-cash working capital items	$	234
Property, plant and equipment		6,507
Intangible assets		8,152
Goodwill		2,621
		17,514
Assumed liabilities:		
Long-term debt		2,800
Future income taxes		3,478
		6,278
Net assets before cash position		11,236
Cash position		679
Cash consideration	$	11,915

(b) 2006 Acquisitions

On January 12, 2006, the Fund acquired the remaining outstanding shares of Pe Ben Oilfield Services Ltd. (“Pe Ben”), a public transportation company for $56.0 million. The $56.0 million was comprised of $18.50 for each outstanding Pe Ben share and the original portfolio investment purchase of $1.4 million incurred prior to 2006. Results from Pe Ben’s Canadian oilfield transportation and pipeline stringing operations are included in the Oilfield Services segment. Results from Pe Ben’s liquid bulk transport operations (“Pe Ben Bulk”) are included in the Trucking/Logistics segment.

On May 1, 2006, the Fund acquired all of the outstanding shares of Kleysen Investments Limited (“Kleysen”) for consideration of $60.3 million and 154,875 trust units at a value of $5.0 million for a total of $65.3 million. Kleysen is a Winnipeg based transportation and logistics company offering four major integrated services including: bulk transportation, deck transportation, multi-commodity transload services and intermodal transportation services. Kleysen’s results from operations are included in the Trucking/Logistics segment.

On June 1, 2006, the Fund completed a Plan of Arrangement (the “Arrangement”) whereby it acquired all of the outstanding shares of Producers Oilfield Services Inc. (“Producers”) by issuing 19.9 million Trust Units and 11.2 million B units at a combined value of $1.0 billion. Producers provides specialized oilfield transportation

(Tabular amounts in thousands, except per unit and unit amounts)

2. Acquisitions and Dispositions, (continued)

solutions to its customers in the oil and gas industry in western Canada. The results from operations of Producers are included in the Oilfield Services segment.

On June 1, 2006, pursuant to the Arrangement, the Fund transferred its northern assets consisting of Beaufort Logistics Inc., Beaufort Oilfield Support Services Ltd., MacKenzie Delta Integrated Oilfield Services Ltd. and MacKenzie Valley Logistics Inc. into Horizon North Logistics Inc. ("Horizon"). The value of the assets transferred totaled $18.1 million which was distributed to unitholders by way of Horizon common shares and purchase warrants on closing of the Arrangement. As a result, the $18.1 million amount transferred has been included as a reduction to retained earnings in the second quarter of 2006.

On February 28, 2006 the Fund acquired all the outstanding shares of Spearing Service Ltd. ("Spearing"), Burnell Contractors Ltd. ("Burnell") and C. Steen Trucking Ltd. ("Steen"). On July 31, 2006, the Fund acquired all the outstanding shares of Canadian Dewatering Limited ("Canadian Dewatering"). On November 6, 2006, the Fund made its final acquisition of the year acquiring Carl Brady Trucking Ltd. and Brady Sand & Gravel Ltd. ("Brady"). Total consideration for these acquisitions was $65.0 million. Spearing's business, based out of Saskatchewan, involves the hauling of crude oil, produced water and other fluids associated with the production of crude oil. Burnell is a Calgary based company involved in providing specialized transportation services to the energy, pipeline, petrochemical and construction industries. The results from operations of Spearing and Burnell are included in the Oilfield Services segment. Steen is a flat deck carrier with operations based out of Edmonton. Steen's results from operations are included in the Trucking/Logistics segment. Canadian Dewatering is a British Columbia based company offering contract dewatering services and the rental and sale of pumps and support equipment. Canadian Dewatering's results from operations are included in the Oilfield Services Segment. Based out of Halbrite, Saskatchewan, Brady provides hauling services to the oil industry in the Midale and Weyburn fields located in southeastern Saskatchewan. The results from operations of Brady are included in the Oilfield Services segment.

These acquisitions have been accounted for by the purchase method, and results of operations have been included in these consolidated financial statements from the date of acquisition. Details of the acquisitions are as follows:

2006	Producers	Kleysen	Pe Ben	Other[1]	Total
Assets:					
Non-cash working capital items	$ 32,852	$ 7,429	$ 13,668	$ 8,693	$ 62,642
Property, plant and equipment	172,331	51,114	36,389	35,508	295,342
Other assets	9,953	536	75	14	10,578
Intangible assets	88,150	9,800	3,180	17,259	118,389
Goodwill	842,082	34,099	18,108	16,194	910,483
	1,145,368	102,978	71,420	77,668	1,397,434
Assumed liabilities:					
Bank indebtedness	—	4,447	1,487	3,441	9,375
Due to shareholder	—	—	—	3,504	3,504
Long-term debt	76,485	20,468	11,941	7,101	115,995
Future income taxes	62,488	12,813	1,984	76	77,361
	138,973	37,728	15,412	14,122	206,235
Net assets before cash position	1,006,395	65,250	56,008	63,546	1,191,199
Cash position	1,789	—	—	1,435	3,224
Net assets	1,008,184	65,250	56,008	64,981	1,194,423
Consideration:					
Cash	900	60,250	56,008	64,981	182,139
Trust Units (20,045,110)	640,000	5,000	—	—	645,000
B Units (11,182,275)	359,808	—	—	—	359,808
Options issued (789,429)	7,476	—	—	—	7,476
	$ 1,008,184	$ 65,250	$ 56,008	$ 64,981	$ 1,194,423

[1] Other consists of Spearing, Burnell, Steen, Canadian Dewatering and Brady.

(Tabular amounts in thousands, except per unit and unit amounts)

3. Investments

		2007		2006
Investments - held for trading	$	7,584	$	—
Investments accounted for by the equity method		2,300		1,825
	$	9,884	$	1,825

4. Property, Plant and Equipment

2007		**Cost**		**Accumulated depreciation**		**Net book value**
Land	$	**66,189**	$	**—**	$	**66,189**
Buildings		**106,470**		**10,477**		**95,993**
Drilling equipment		**30,651**		**4,623**		**26,028**
Trucks and trailers		**423,764**		**116,286**		**307,478**
Equipment, furniture and fixtures		**117,669**		**40,485**		**77,184**
Automobiles, computer equipment and computer software		**28,805**		**18,394**		**10,411**
Satellite communications equipment		**8,116**		**4,576**		**3,540**
	$	**781,664**	$	**194,841**	$	**586,823**

2006		Cost		Accumulated depreciation		Net book value
Land	$	43,040	$	—	$	43,040
Buildings		93,463		8,525		84,938
Drilling equipment		31,678		3,734		27,944
Trucks and trailers		408,090		87,315		320,775
Equipment, furniture and fixtures		92,484		24,415		68,069
Automobiles, computer equipment and computer software		25,161		15,235		9,926
Satellite communications equipment		7,904		4,074		3,830
	$	701,820	$	143,298	$	558,522

Property, plant and equipment include equipment under capital leases which is recorded at cost, totaling $9.5 million (2006 - $9.6 million), less accumulated depreciation of $1.7 million (2006 - $0.7 million).

5. Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired less liabilities assumed, based on their fair values. As at December 31, 2007, the Fund recorded an impairment of goodwill of $250.0 million. The impairment related to the goodwill acquired with the Producers acquisition, whose operating business units are Formula Powell, Swanberg and Withers which are in the Oilfield Services segment, where the carrying value of goodwill exceeded its fair value. The Fund's Trucking/Logistics segment had no impairment as the fair values of the segment exceeded their carrying values.

(Tabular amounts in thousands, except per unit and unit amounts)

6. Intangible Assets

	2007	2006
Intangible assets - cost	$ **137,810**	$ 129,658
Less accumulated amortization	**55,136**	13,374
	$ **82,674**	$ 116,284

Intangible assets are mainly comprised of non-competition agreements and customer relationships and are amortized over their estimated life. As at December 31, 2007, the Fund recorded an impairment of intangible assets totalling $25.0 million. The impairment related to the intangible assets acquired with the Producers acquisition whose operating business units are Formula Powell, Swanberg and Withers, which are in the Oilfield Services segment, where the carrying value of intangible assets exceeded its fair value. There were no indications of impairment in the Fund's other business units as the fair values of those business units exceeded their carrying values.

7. Other Assets

Other assets are comprised of deferred compensation, amounts due from related parties and other as follows:

	2007	2006
Deferred compensation	$ 1,771	$ 4,224
Deferred private debt cost	—	1,525
Due from related parties (note 16)		
Non-interest bearing, unsecured loan	—	540
Interest bearing, secured loan	248	667
	248	1,207
Other	809	2,379
	$ 2,828	$ 9,335

The deferred compensation asset arose from the unearned stock-based compensation resulting from the exchange of stock options for Trust Unit options in the Producers acquisition.

8. Distributions Payable

The Fund declared distributions of $1.80 per unit during the year ended December 31, 2007. Total distributions paid were $147.0 million. Distributions payable is comprised of $12.1 million distributions declared of $0.15 per unit for holders of record on December 31, 2007.

(Tabular amounts in thousands, except per unit and unit amounts)

9. Long-term Debt

		2007		2006
Bank facility (a)	$	—	$	18,600
Private placement (b) (c)		**390,548**		315,500
Term loan bearing interest at 6.3 percent. The loan is repayable in blended principal and interest payments of $57,732 and matures in February, 2014.		**3,538**		3,995
Various financing loans with no interest monthly principal payments not exceeding $1,238. These loans are secured by specific operating equipment.		**30**		211
Various financing loans with rates between 2.35 percent and 12.53 percent with monthly blended principal and interest payments not exceeding $23,258. These loans are secured by specific operating equipment.		**7,153**		6,952
Mortgage facility with a rate of 4.5 percent with blended principal and interest payments of $17,029. This mortgage is secured by specific land, building and operating equipment.		**1,140**		1,278
Vendor mortgage, non-interest bearing, secured by a general security agreement covering specific operating assets.		—		200
		402,409		346,736
Less current portion		**3,817**		21,734
	$	**398,592**	$	325,002

Aggregate principal repayments of long-term debt are as follows:		
2008	$	3,817
2009		2,689
2010		1,916
2011		1,381
2012 and thereafter		392,606
	$	402,409

(a) The Fund has available a $150.0 million extendible revolving 364-day term facility convertible to a one year reducing facility. Interest is payable monthly and is based on either the bank prime rate or bankers' acceptance rates plus a prime acceptance fee which varies from 0.85 percent to 2.0 percent per annum based upon achieving certain financial ratios. At December 31, 2007, no amounts were drawn on this facility.

(b) On September 5, 2007, the Fund issued Senior Guaranteed Unsecured Notes by way of private placement of U.S. $85.0 million of Series E Notes and CDN. $20.0 million of Series F Notes. Both the Series E and Series F Notes mature on September 27, 2017. The Series E and Series F Notes bear annual interest of 5.90 percent and 5.47 percent, respectively and interest is payable semi-annually.

(c) On June 29, 2006, the Fund issued Senior Guaranteed Unsecured Notes by way of private placement of U.S. $100.0 million of Series A Notes, U.S. $50.0 million of Series B Notes, CDN. $70.0 million of Series C Notes and CDN. $70.0 million of Series D Notes. The Series A and Series C Notes mature June 30, 2016 and the Series B and Series D Notes mature June 30, 2018. The Series A, Series B, Series C, and Series D Notes bear interest of 6.29 percent, 6.39 percent, 5.60 percent and 5.76 percent per annum, respectively. Interest is payable semi-annually.

(d) The Fund has $1.8 million of Letters of Credit and Letters of Guarantee outstanding, which were issued to guarantee certain performance and payment obligations. These Letters of Credit and Guarantee reduce the amount available under the bank credit facility.

(e) The Fund's debt issuance costs of $2.1 million have been netted against the related indebtedness in accordance with changes in Accounting Policies.

(Tabular amounts in thousands, except per unit and unit amounts)

10. Income Taxes

The provision for income taxes differs from the amounts which would be obtained by applying the expected Canadian statutory rates as follows:

		2007		2006
(Loss) income before income taxes and earnings from equity investments	$	**(135,533)**	$	129,689
Income tax rate		**33%**		33%
Computed expected income tax expense (recovery)		**(44,726)**		42,797
Add (less):				
Impairment of goodwill		**84,050**		—
Amounts included in Trust income		**(46,934)**		(31,313)
Non-deductible unit-based compensation		**802**		700
Future tax adjustment on temporary differences in flow-through entities (a)		**3,072**		—
Reduction of future tax balances due to substantively enacted income tax rate changes (b)		**(12,562)**		(11,220)
Non-taxable portion of unrealized foreign exchange (gain) loss		**(4,367)**		1,239
Other		**7,425**		352
Provision for income taxes	$	**(13,240)**	$	2,555

(a) On June 22, 2007 the Government of Canada enacted a new tax on distributions from SIFT entities. This enactment has triggered the recognition of future income tax assets and liabilities expected to reverse after January 1, 2011. The effect of the income tax increase on the SIFT entity's future income tax balances in the Fund has been reflected as a future income tax expense in 2007.

Income earned directly by MCLP and its subsidiary limited partnerships are not subject to income taxes until January 1, 2011. Prior to January 1, 2011, the Fund is a taxable entity under the Income Tax Act (Canada) and income earned is taxable only to the extent it is not distributed or distributable to its unitholders.

(b) In 2007, the Government of Canada enacted a Federal tax rate reduction of 1.0 percent in 2008, 1.0 percent in 2009, 1.0 percent in 2010, 2.0 percent in 2011 and 3.5 percent in 2012. The effect of the income tax rate reduction on the Corporation's future income tax balances in the Fund has been reflected as a reduction of future income tax expense in 2007.

The Fund owns eight businesses for which the operating results flow through to the Fund because such businesses are flow-through entities not owned by MT, the Fund's subsidiary. Current temporary income tax differences between the book value and the tax value of certain assets owned by these eight businesses do not result in future income taxes in the Fund's consolidated financial statements. These temporary differences amount to approximately $46.4 million at December 31, 2007 compared to $50.5 million in 2006. As a result of the legislation enacted on June 22, 2007, affecting tax on SIFT entities, the Fund recorded a future tax adjustment of $8.0 million reflecting anticipated differences of $27.8 million as of January 1, 2011.

(Tabular amounts in thousands, except per unit and unit amounts)

10. Income Taxes, (continued)

The future income tax liability consists of the following:

		2007		2006
Liabilities:				
Property, plant and equipment	$	**71,261**	$	71,614
Partnership income		**32,316**		42,276
Intangible assets and other		**20,687**		24,984
		124,264		138,874
Assets:				
Loss carryforwards		**(211)**		(7,152)
Financing fees		**(696)**		(993)
Future income tax liability	$	**123,357**	$	130,729

11. Unitholders' Capital

Trust Units: **Authorized: Unlimited Number**	# of Trust Units		Amount
Balance at December 31, 2005	37,760,207	$	82,792
Units issued for cash (net of unit issue costs of $5.6 million)	3,400,000		96,400
Units issued for Kleysen acquisition	154,875		5,000
Units issued for Producers acquisition	19,890,235		640,000
Issued on exercise of options	56,442		1,478
Issued on exchange of B Units	66,979		1,218
Balance at December 31, 2006	61,328,738	$	826,888
Units issued on exercise of options	107,460		2,788
Units issued on exchange of B Units	438,983		6,444
Units repurchased	(1,703,700)		(25,005)
Units repurchased, pending cancellation	400,500		5,880
Balance at December 31, 2007	60,571,981	$	816,995

Pursuant to the normal course issuer bid, the Fund repurchased 1,703,700 Trust Units for $28.7 million in 2007. Unitholders' capital has been reduced by $25.0 million, the stated value of the units. The excess of the amount paid over the stated value of the Trust Units of $3.7 million has been charged to the deficit.

(Tabular amounts in thousands, except per unit and unit amounts)

11. Unitholders' Capital, (continued)

Of the 1,703,700 Trust Units repurchased, 400,500 Trust Units were pending cancellation at December 31, 2007. Accordingly, the stated value of the Trust Units pending cancellation has been recorded in unitholders' equity separate from unitholders' capital. The number of units has been shown as outstanding and has been excluded from per unit calculations.

MCLP B Units*: **Authorized: Unlimited Number**	# of B Units		Amount
Balance at December 31, 2005	9,495,549	$	16,199
Units issued for Producers acquisition	11,182,275		359,808
Exchanged for Trust Units	(66,979)		(1,218)
Balance at December 31, 2006	20,610,845		374,789
Exchanged for Trust Units	(438,983)		(6,444)
Balance at December 31, 2007	20,171,862	$	368,345

**B Units are exchangeable for Trust Units on a one for one basis*

Summary of Unitholders' Capital:	# of Units		Amount
Trust Units	60,571,981	$	816,995
B Units	20,171,862		368,345
Unitholders' capital at December 31, 2007	80,743,843	$	1,185,340

Unit-based compensation plan:	Options		Weighted average exercise price
Outstanding - December 31, 2005	2,550,000	$	20.66
Granted as part of Producers acquisition	789,429		16.26
Exercised	(56,442)		(11.26)
Cancelled	(103,954)		(18.57)
Outstanding December 31, 2006	3,179,033	$	19.28
Granted	5,000		21.82
Exercised	(107,460)		(11.61)
Cancelled	(162,510)		(19.09)
Outstanding - December 31, 2007	2,914,063	$	19.58
Exercisable - December 31, 2007	244,836	$	18.08

As at December 31, 2007 there are Trust Options outstanding to purchase 2,914,063 Trust Units with prices ranging from $1.59 to $25.50 per Trust Unit with expiry dates ranging from July 19, 2010 to September 9, 2010.

Under the Option Plan, the Fund may grant additional Trust Options to its employees and directors for 2,010,000 Trust Units which have been reserved for this purpose. Under the Option Plan, the exercise price of a Trust Option granted under the Option Plan shall be as determined by the Board of Directors when that Trust Option is granted subject to any limitations imposed by any relevant stock exchange or regulatory authority, and shall be an amount at least equal to the market value of the Trust Units.

(Tabular amounts in thousands, except per unit and unit amounts)

11. Unitholders' Capital, (continued)

The range of exercise prices for options outstanding at December 31, 2007 are as follows:

	Options Outstanding				Exercisable Options		
Range of Exercise Prices	Number	Weighted Average Remaining Contractual life (years)		Weighted average exercise price	Number		Weighted average exercise price
$1.59 to 9.99	33,333	7.0	$	8.34	7,408	$	8.34
$10.00 to 19.99	2,763,519	3.1		19.64	169,284		17.45
$20.00 to 25.50	117,211	7.3		21.21	68,144		20.68
$1.59 to 25.50	2,914,063	3.3	$	19.58	244,836	$	18.08

Unit-Based Compensation

The following weighted average assumptions were used to determine the fair value of the options on date of grant:

Risk-free interest rate	3.63%
Expected life	5 - 9 years
Maximum life	10 years
Expected distribution	1.80 per Trust Unit
Expected Trust Unit price volatility	22.02

12. Contributed Surplus

The Fund records compensation expense using the fair value method. Fair values are determined using the Black-Scholes option pricing model. Compensation costs are recognized over the vesting period as an increase to compensation expense and contributed surplus. When options are exercised, the fair value amount in contributed surplus is credited to unitholders' capital.

		Amount
Balance at December 31, 2005	$	330
Deferred compensation		4,224
Options vested upon Producers acquisition		1,546
Unit-based compensation expense		2,581
Unit options exercised		(842)
Balance at December 31, 2006	$	7,839
Unit-based compensation expense		3,428
Unit-based compensation expense related to deferred compensation		(2,454)
Unit options exercised		(1,540)
Balance at December 31, 2007	$	7,273

13. Per Unit Amounts

Basic per unit amounts have been calculated on the weighted average number of units outstanding during the year. The weighted average units outstanding for the year ended December 31, 2007 was 81,596,000 (2006 – 68,886,000).

(Tabular amounts in thousands, except per unit and unit amounts)

13. Per Unit Amounts, (continued)

Diluted per unit amounts are calculated to reflect the dilutive effect of the exercise of options outstanding. The dilutive effect of the exercise of options for the year ended December 31, 2007 and December 31, 2006 was anti-dilutive, therefore, the diluted units for the year ended December 31, 2007 and December 31, 2006 was 81,596,000 and 68,886,000, respectively.

14. Commitments and Contingencies

(a) Commitments:

The Fund is committed to payments under operating leases for equipment and buildings to 2013 and thereafter. Annual minimum payments required subsequent to 2007 are as follows:

2008	$ 14,162
2009	10,483
2010	4,936
2011	1,420
2012	687
2013 and thereafter	641

(b) Contingencies:

The Fund is party to legal proceedings and claims that arise during the ordinary course of business. It is the opinion of management that the ultimate outcome of these matters will not have a material effect upon the Fund's financial position, results of operations or cash flows.

15. Segmented Information

The Fund conducts its business through indirectly owned subsidiaries and limited partnerships which are categorized into two business segments. The Oilfield Services segment provides transportation, drilling and other services to the oil and gas industry which includes exploration and development companies and production and gas transmission companies. The Trucking/Logistics segment provides both long-haul and local transportation services to customers in various industries.

				Intersegment eliminations		
Year ended December 31, 2007	Oilfield Services	Trucking/ Logistics	Corporate	Oilfield Services	Trucking/ Logistics	Total
Revenue	$ 685,384	$ 436,970	$ 2,652	$ (3,057)	$ (2,450)	$ 1,119,499
Revenue, less direct operating expenses, less selling and administrative expenses	151,257	64,311	(6,438)	—	—	209,130
Depreciation	45,964	8,828	2,892	—	—	57,684
Amortization	13,311	3,425	25	—	—	16,761
Total assets	1,424,753	270,482	75,255	—	—	1,770,490
Capital expenditures [(1)]	46,328	13,630	37,445	(586)	(164)	96,653
Goodwill	720,983	73,465	—	—	—	794,448

(Tabular amounts in thousands, except per unit and unit amounts)

15. Segmented Information, (continued)

				Intersegment eliminations		
Year ended December 31, 2006	Oilfield Services	Trucking/ Logistics	Corporate	Oilfield Services	Trucking/ Logistics	Total
Revenue	$ 604,270	$ 400,417	$ 2,279	$ (1,901)	$ (1,778)	$ 1,003,287
Revenue, less direct operating expenses, less selling and administrative expenses	141,587	60,751	(273)	—	—	202,065
Depreciation	32,792	7,421	1,517	—	—	41,730
Amortization	7,693	3,197	15	—	—	10,905
Total assets	1,642,976	253,197	125,072	—	—	2,021,245
Capital expenditures (1)	79,905	16,818	6,590	—	(608)	102,705
Goodwill	962,181	73,465	6,181	—	—	1,041,827

(1) *Excludes business acquisitions*

16. Related Party Transactions

All related party transactions are provided in the normal course of business under the same terms and conditions as transactions with unrelated companies.

Nature of transaction	Nature of relationship	Amount of the transaction 2007	2006
Revenue:			
Transportation services	a, b, c	$ **13,729**	$ 1,062
Management fees	a	**4,873**	—
Other revenue	a, b, c	**46**	49
Sale of property, plant and equipment	a, b, c	**3,798**	1,374
		$ **22,446**	$ 2,485
Expenses:			
Transportation services	a, b	$ **49**	$ 1,007
Other	a, b, c	**872**	857
Purchase of property, plant and equipment	a	**—**	119
		$ **921**	$ 1,983
Balances as at December 31:			
Accounts receivable		$ **1,000**	$ 1,062
Other assets (note 7)		**248**	1,207
Accounts payable		**7**	86

Nature of relationship:

a Related by equity investment:

	Equity Ownership
Beaufort Oilfield Support Services Ltd. (until May 31, 2006)	49%
Mackenzie Delta Integrated Oilfield Services Ltd. (until May 31, 2006)	39%
Pe Ben USA Inc.	50%

b Related by common officer or director

c Private companies owned or controlled by an officer or director

17. Financial Instruments

(a) Fair values

The carrying values of cash and cash equivalents, accounts receivable, income taxes recoverable, prepaid expenses, accounts payable and accrued liabilities and distributions payable approximate their fair value due to their short terms to maturity. The fair value of investments and other assets included in the consolidated balance sheet do not materially differ from their carrying values. The fair value of the bank facility approximates its carrying value as it bears interest at floating rates. The carrying value of the private placement debt approximates the fair value as interest rates approximate current rates (see note 9).

(b) Credit risk

The Fund hauls a wide variety of freight for a broad customer base which spans numerous industries. Longer-term contracts are with large, well established customers. No customer accounted for more than 10 percent of the Fund's revenue in 2007 and 2006.

(c) Foreign exchange rate fluctuation

The Fund has U.S. $235.0 million in Senior Guaranteed Unsecured Notes which exposes the Fund to foreign currency fluctuations. The Fund also has U.S. activity in its operations which would partially offset the exposure.

(d) Interest rate risk

The Fund manages its interest rate risk through a combination of fixed and floating rate borrowings.

The Fund is exposed to fluctuations in floating interest rate terms in the bank facility (see note 9).

Seven Year Selected Financial Data

Years ended December 31 ($ thousands, unaudited)	2007	2006	2005	2004	(restated)* 2003	(restated)* 2002	2001
Revenue	$ 1,119,499	$ 1,003,287	$ 591,728	$ 470,860	$ 421,504	$ 302,512	$ 349,582
Expenses							
Direct operating expenses	764,992	682,132	411,893	328,853	305,060	224,729	246,534
Selling and administrative expenses	145,377	119,090	67,118	49,932	45,294	35,396	37,794
	209,130	202,065	112,717	92,075	71,150	42,387	65,254
Depreciation and amortization	74,445	52,635	22,490	19,871	17,819	13,975	12,937
Interest on long-term debt	20,970	13,410	1,853	1,865	1,504	36	158
Other interest	194	202	66	157	386	226	44
Unrealized foreign exchange (gain) loss	(26,641)	7,500	—	—	—	—	—
Loss (gain) on sale of property, plant and equipment	725	(1,256)	(214)	749	(92)	(255)	(325)
Gain on sale of investments	(30)	(115)	—	—	(304)	—	—
Impairment of goodwill and intangible assets	275,000	—	—	—	—	—	—
(Loss) income before income taxes, earnings from equity investments and amortization of goodwill	(135,533)	129,689	88,522	69,433	51,837	28,405	52,440
Provision for income taxes							
Current (recoverable)	(2,390)	(4,311)	14,017	22,041	18,229	10,906	19,624
Future (recoverable)	(10,850)	6,866	4,933	1,735	1,520	773	745
	(13,240)	2,555	18,950	23,776	19,749	11,679	20,369
Income before earnings from equity investments and amortization of goodwill	(122,293)	127,134	69,572	45,657	32,088	16,726	32,071
Earnings from equity investments	3,598	998	391	820	332	945	479
Net (loss) income before amortization of goodwill	(118,695)	128,132	69,963	46,477	32,420	17,671	32,550
Amortization of goodwill	—	—	—	—	—	—	2,040
Net (loss) income from continuing operations	(118,695)	128,132	69,963	46,477	32,420	17,671	30,510
Net income from discontinued operations	—	—	—	—	—	—	169
Net (loss) income	$ (118,695)	$ 128,132	$ 69,963	$ 46,477	$ 32,420	$ 17,671	$ 30,679

*2002 and 2003 figures have been restated to account for stock-based compensation.

Years ended December 31	2007[(1)]	2006	2005	2004	(restated)* 2003	(restated)* 2002	2001
Ratios - Operating [(1)]							
Return on equity	10.6%	14.6%	23.5%	18.9%	15.5%	9.5%	18.3%
Gross margin - percent of revenue	31.7%	32.0%	30.4%	30.2%	27.6%	25.7%	29.5%
Selling and administrative expenses - percent of revenue	13.0%	11.9%	11.3%	10.6%	10.7%	11.7%	10.8%
Operating ratio	88.0%	85.0%	84.7%	84.8%	87.3%	90.5%	85.5%
Financial Position ($ thousands except acid test and debt-to-equity ratio)							
Acid test	$ 2.27	$ 1.48	$ 1.35	$ 1.39	$ 1.57	$ 1.49	$ 2.15
Net property, plant and equipment	$ 586,823	$ 558,522	$ 218,357	$ 189,436	$ 187,801	$ 149,160	$ 116,769
Total assets	$ 1,770,490	$ 2,021,245	$ 508,619	$ 400,709	$ 381,643	$ 294,532	$ 231,537
Long-term debt (including current portion)	$ 402,409	$ 346,736	$ 51,534	$ 39,176	$ 73,584	$ 30,506	$ 1,038
Unitholders' equity	$ 1,132,132	$ 1,424,066	$ 327,872	$ 267,975	$ 224,333	$ 194,687	$ 176,520
Debt-to-equity ratio	0.36	0.24	0.22	0.15	0.33	0.20	0.01
Funds from operations	$ 193,783	$ 195,345	$ 100,771	$ 69,967	$ 52,116	$ 32,195	$ 45,428
Unit Data[**(1)]							
Funds from operations per unit	$ 2.38	$ 2.84	$ 2.18	$ 1.55	$ 1.17	$ 0.73	$ 1.06
Book value per unit	$ 17.34	$ 17.38	$ 6.94	$ 5.93	$ 5.02	$ 4.39	$ 4.07
Earnings per unit	$ 1.83	$ 1.86	$ 1.51	$ 1.03	$ 0.73	$ 0.40	$ 0.71
Price/earnings ratio	9.6	10.0	21.6	16.1	18.1	24.8	11.7
Weighted number of units outstanding (thousands)	81,596	68,886	46,261	45,024	44,558	43,941	42,939
Total units outstanding (thousands)	80,744	81,490	47,256	45,186	44,721	44,324	43,329

*2002 and 2003 figures have been restated to account for stock-based compensation.

**Unit data has been restated to reflect the exchange of Mullen Transportation Inc. shares for Mullen Group income Fund units on a one-for-three basis.

(1) 2007 operating ratios and unit data are calculated before the effect of the impairment of goodwill and intangible assets.

Notes:

1. Return on equity was calculated by dividing net income by average unitholders' equity.
2. Gross margin was calculated by dividing sales less direct operating costs by sales.
3. Operating ratio was calculated by dividing the total cost before taxes, interest and unrealized gains and losses on foreign exchange, as a percentage of revenue.
4. Acid test ratio was calculated by dividing cash plus receivables by current liabilities.
5. Debt-to-equity ratio was calculated by dividing total debt by unitholders' equity.
6. Funds from operations was calculated as funds from operations before the effect of changes in non-cash working capital items.
7. Funds from operations per unit was calculated by dividing funds from operations by weighted average number of units outstanding.
8. Book value per unit was calculated by dividing unitholders' equity by the number of units outstanding.
9. Earnings per unit was calculated by dividing net income by the weighted average number of units outstanding.
10. Price/earnings ratio was calculated by dividing year-end closing price by earnings per unit.

CORPORATE INFORMATION

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Director

Stephen H. Lockwood, Q.C.
President, Co-Chief Executive Officer and Director

Richard Peterson
Director

Patrick Powell
Director

Bruce W. Simpson[1, 2]
Director

David E. Olson
Vice President, Finance and Chief Financial Officer

Bruce W. Mullen
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(2) Member of the Compensation, Nomination and Governance Committee

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